FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,259 | Monday June 15 1987 | D 8523 A

West Germany: Willy Brandt bids farewell, Page 20

World news

Sikhs take campaign of violence to Delhi

Police in New Delhi launched a massive hunt after Sikh gunmen went on a murder rampage in the heart of the Indian capital killing 12 people and injuring 22 in the worst extremist attack the city has seen in two years.

The sharp escalation of Sikh extremist violence started over the weekend in Punjab where 15 people were reported killed after a series of separate incidents. The wave of terrorist activity suggests a renewed extremist tactic to stop a police crackdown on Sikh extremists in Punjab, now under direct rule from New Delhi. Page 20

Seoul siege

Hundreds of students continued their siege in Seoul's main Catholic Church with growing support from office workers and worshippers amid fears that the Government was considering emergency measures, including the imposition of martial law. Page 4

Shultz on arms

US Secretary of State George Shultz told Soviet viewers in a television broadcast that the superpower arms control talks in Geneva stood a "good chance of success" in solving issues on which the US and the Soviet Union had been struggling. Analysis Page 2

Security tightened

Spain is to tighten security at key industrial plants after Friday's bomb attack at the country's main petrochemical complex in Tarragona. The outlawed Eta guerilla group has claimed responsibility.

Falklands talks

Argentine President Raul Alfonsin said the US and Switzerland are pushing for talks between Argentina and Britain over the Falkland Islands but that no concrete proposals have emerged to resolve the territorial dispute. Page 4

Spanish trucks move

Spanish truck drivers have lifted their blockade of the main border in the eastern Pyrenees. Some 700 Spanish trucks cut off the border to protest against French farmers' action last week when Spanish trucks were set on fire.

Bangladesh bomb bill

The Bangladesh parliament has passed a bill making bombing offences punishable by death with life sentences only on compassionate grounds.

Cypriot protest

About 300 Greek Cypriot women demonstrators scuffled with UN troops as they marched to confront Turkish occupation troops and ask to visit their homes in the Turkish north of the divided island.

'Free Barbie' call

French lawyer Jacques Verges defending Klaus Barbie on a charge of crimes against humanity, said the former Gestapo officer should be allowed to go free under a French legal technicality covering sentences for several different crimes.

Clearing the air

European Environment Ministers called on their governments to speed up the availability of lead-free petrol and draw up a strategy to improve environmental protection measures.

Wild young Soviets

About 150 young people overturned cars and smashed windows in the Soviet Far East town of Komsomolsk-na-Amure, domestic press reports said, noting the rising crime rate among youth in the region.

AIDS on record

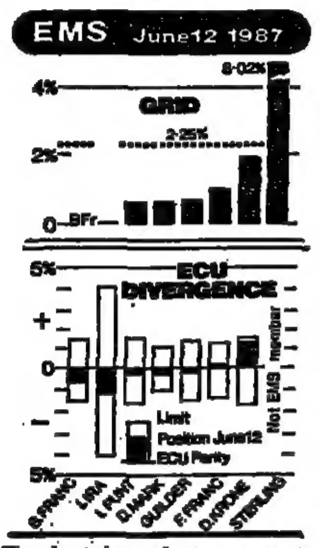
Authorities in France's department of Alpes Maritimes are to keep an anonymous record of people infected with the AIDS virus to follow the progress of the disease.

Business summary

Telefonica extends US share offering

TELEFONICA, Spanish telecommunications utility which had its shares listed in New York on Friday, is extending its US share offering to a maximum of about $375 in view of heavy demand. Page 21

EUROPEAN Monetary System: Currencies showed little change on the week within the EMS. Attention during the first few days centred on the Venice summit but this provided little fresh initiative to act upon. Speculation grew that a Conservative victory would increase pressure on the UK authorities to place sterling in the exchange rate mechanism and September was chosen as the most likely time. Elsewhere, an small decline in the US trade deficit left the dollar slightly firmer on the week against the D-Mark, thus presenting no problems for the weaker member currencies such as the Belgian franc.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

SOUTH AFRICAN and foreign business leaders have warned Pretoria that it faces a further exodus of capital unless it drops plans to deduct rent arrears from employees' wages. Page 4

FORD of US is negotiating to sell its South African subsidiary following pressure from anti-apartheid groups. Page 4

PERU central bank president Leonel Garcia resigned, following the failure of the bank's attempt to control the dollar black market. Page 4

LATIN AMERICAN leaders are expected to decide to go ahead with a plan to supply oil to Nicaragua, which is suffering a fuel crisis following a Soviet decision that it cannot meet Nicaragua's requirements in full. Page 3

TAIWAN: Review committees of parliament have approved the lifting of controls on outward foreign-exchange movements, paving the way for possible massive investments by Taiwanese in companies and stock markets abroad.

KUEHNE & NAGEL, the international forwarding agent, reported a fall in turnover by 7.7 per cent last year to DM 4.53bn ($2.5bn), due largely to the fall in the dollar. Page 22

MERCK AG, parent of Swiss-based chemical concern, reported a jump in net earnings of some 78 per cent last year to SFr 23.4m ($15.6m). Page 22

SUDAN resumes talks with 104 creditor banks today in a new bid to recycle debts of $1.6bn. Page 2

SOCIÉTÉ GÉNÉRALE, fourth largest French bank, today begins its FFr 22.4bn ($2.2bn) privatisation offer. Page 22

PENNZOIL, Houston-based oil company which is locked in a $10.3bn legal battle with the far larger Texaco, is considering carving itself up into about four separately quoted units as one of a number of restructuring proposals. Page 22

Politicians vie with sunny beaches for Italians' votes

BY JOHN WYLES IN ROME

ITALIANS began trooping to the polls yesterday, behind them one of the most tedious and bitter election campaigns in living memory and in prospect deep uncertainty as to the composition and durability of the next government.

Much will depend on whether the two largest parties, the Christian Democrats and the Communists, can halt their steady declines of recent years. The Catholic party has been trying to galvanise supporters by warning that it may be supplanted as Italy's largest party by the Communists.

The most likely outcome remains only modest changes in the shares of the vote and a new coalition built on the five parties that have governed since 1983. But the country could face protracted wrangling over who should lead the government – a Christian Democrat, or Mr Bettino Craxi, the Socialist leader and Prime Minister for nearly four years, or a more junior party leader such as Mr Giovanni Spadolini of the Republicans.

With much of the country enjoying its first really hot spell of the summer, the immediate question is how many of the 45.58m electors will boycott the 83,477 polling stations in favour of the beach or the mountains. According to RAI, the public television, the turnout after the first four hours was 15.5 per cent, 0.3 per cent down on the same period in 1983.

As a country where voting is considered a civic duty, Italy has traditionally enjoyed turnouts well above the European average. However the incidence of abstentions and spoiled or blank voting papers has been steadily rising in the last decade to reach a record 17.1 per cent of the electorate in the last general election in June 1983.

After closing at 10pm last night, the polls will reopen at 7am today and voting will continue until 2pm local time this afternoon. The first computer projections of the result are expected in late afternoon. Under a system which is perfectly proportional, at least 11 parties are expected to win representation in the Chamber of Deputies, including for the first time members of the Green Party.

Campaigning officially ended on Friday evening when party leaders were given five minutes of television time to make their final appeals. Even at this late stage the campaign's two most determined duellists, Mr Ciriaco de Mita of the Christian Democrats and Mr Craxi of the Socialists, each sought to inflict flesh wounds on the other.

Insisting that his party would not form a governing alliance with the Communist Party, Mr de Mita claimed that the democratic rules of the game were at stake. In language only thinly coded, he appealed for a strengthened vote which would enable the Christian Democrats to assert beyond peradventure their right to lead the next coalition government over the claims of the Socialists and the other smaller parties.

Lauding the virtues of stability established during his nearly four years as premier, Mr Craxi implied that christian democrat leadership made him fear "weak, precarious and inconclusive governments".

Although unable to choose a government under the fragmented party system, the voters can sen signals which will influence the formation of the next coalition.

An increase in the Christian Democrat vote from its historic low of 32.9 per cent in 1983 would give the party a strong claim on coalition leadership, notwithstanding the anticipated percentage point or two rise in the Socialist vote.

More confusing and potentially turbulent would be gains for the Communists which take the party's share of the vote past that of the Christian Democrats. The Communists would demand the opportunity to end 40 years of opposition and to form an "alternative" government with the smaller lay parties.

But providing they could collectively muster with the Christian Democrats more than 50 per cent of the Chamber of Deputies, the Socialists, Republicans, Social Democrats and Liberals would be more likely to reconstitute the five-party coalition which has ruled since 1983.

One source of continual conjecture has been how the 3.8m young people who have turned 18 since 1983 will vote. In the past, the youth vote has tended to favour the left but some polls are now suggesting that it is equally split between the Christian Democrats and the Communists.

SHARES OF VOTE IN 1983 ELECTION

*Christian Democrats	32.9
Communist Party	29.9
*Socialists	11.4
*Republicans	5.1
*Social Democrats	4.1
*Liberals	2.9
MSI-DN (Neo-Fascist)	6.8
Radicals	2.2
Proletarian Democrats	1.5
Others	3.2

*Members of coalition 1983–87

Women, who make up 52 per cent of the electorate, traditionally vote heavily Christian Democrat – 42 per cent of them support the Catholic party as against 25 per cent of men.

Brazil seeks talks with creditors on $7bn finance need

BY OUR FOREIGN AND FINANCIAL STAFF

BRAZIL has identified an external financing need of $7.1bn for 1987 and plans to begin talks soon with official and commercial bank creditors on meeting it, the Brazilian Government said at the weekend.

The figure includes the $4.3bn of interest which will have accrued by the end of the year on the country's $68bn commercial bank debt, upon which it suspended interest payments in February. The total also includes $1.8bn in payments due to multilateral agencies and official creditors.

The announcement of the country's external financing needs for the year followed the unveiling of a new economic package which includes a reimposition of a price freeze, a devlauation of the Cruzado and big cuts in government spending designed to resuscitate the country's flagging economy.

International bankers and monetary officials reacted with caution to the new austerity measures, while in Brazil local businessmen also gave the package a cautious welcome. However, there was some scepticism that wage and public spending, together with the prices freeze, would halt inflation.

In Washington, officials of the International Monetary Fund said they would have to study the Government's plans in detail before making a considered response. The IMF recently resumed high level contacts with the Brazilian Government and is shortly to draw up a report on the Latin debtor's economy and prospects for the Paris Club of sovereign country lenders.

British banks extended a cautious welcome to the Brazilian economic package, but emphasised that full details had not been available over the weekend. Midland Bank, which listed £1.4bn of external lending to Brazilian customers in its end-1986 annual report, and Lloyds, with £1.2bn, are the most exposed British banks.

A Midland spokesman said that the banks had been waiting for a sound economic policy to be put into place, and the programme looked encouraging. It might be sufficient to enable the banks and the Brazilians to start talking about refinancing possibilities.

However, the banks would need more information about the Brazilian Government's spending plans, and the financing gap would be studied carefully, in particular the suggestion that the Brazilians would be seeking $6bn in new money for 1987.

A spokesman for Lloyds would only say that "our people will start looking at it in detail from tomorrow."

Stock market analysts in London are expecting sharply higher provisions to be made against Third World debt by the more vulnerable banks when the big clearing banks publish their half-yearly results at the end of July.

This will reflect the new, more aggressive policy on loan write-offs by the big US commercial banks, led by Citicorp, as well as the particular circumstances of the Brazilian interest rate suspension and the new economic package.

In all, Midland has some £3.4bn outstanding to Brazil, Mexico and Argentina combined, while Lloyds' corresponding exposure is £2.7bn.

In Basle, Brazilian officials said the amount of new money required for external financing will clearly depend on what treatment is applied to the payments due this year. It will also depend on the level of the Brazilian trade surplus.

Though the Government is still working with a projection of an $8bn trade surplus, the officials said the recent pick up in the trade position offered some hope that the forecast could be exceeded.

The officials said the new financing would include sectoral loans from the World Bank, but declined to be more specific about the country's money raising plans.

Mr Antonio de Padua Seixas, a central bank official who is the country's chief debt negotiator, was explaining Brazil's new economic austerity package to fellow central bankers gathered in Basle for the annual meeting of the Bank for International Settlements.

Brazil is sticking to its refusal to obtain an orthodox agreement with the IMF. But bankers and officials hope that, provided the economic measures are satisfactory to the Fund, a formula will be found which would enable other creditors to participate in a new rescue package.

The official said Brazil intends to remain current with the IMF, to which it is due to pay about $1bn this year.

Pope ends emotional trip home

By Christopher Bobinksi in Warsaw

POPE John Paul II left Poland yesterday after an emotional week-long visit during which he criticised repeatedly the government's failure to implement reforms and respect human rights, and boosted the morale of the weakened Solidarity trade union movement.

At the airport before his departure, the Pope held a second meeting with General Wojiech Jaruzelski designed to show that the church and state were still on speaking terms and that the Polish leader retained a modicum of credit in the Pontiff's eyes.

The second meeting was arranged at Gen Jaruzelski's request.

But the outspoken tone adopted by the Pontiff during his visit reflected disappointment that a similar second meeting after his visit to Poland four years ago had yielded

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Thatcher plans new emphasis on key policies

BY PETER RIDDELL, POLITICAL EDITOR

MRS MARGARET Thatcher, the British Prime Minister, will make major changes in ministerial responsibilities at the Department of Trade and Industry (DTI) and undertake a review of agriculture and health policies.

These will follow the cabinet reshuffle which she began during the weekend and will complete this week after her landslide victory in last Thursday's elections.

The moves are intended not just to promote promising ministers at the expense of long-serving ones but also to signal a new emphasis in key policy areas, even though Mrs Thatcher has decided to put off major changes in the machinery of government until later in the parliament.

This is one reason why more far-reaching changes at the top of the Government have been left until later.

A shake-up is planned at the DTI which is expected to take a more active role in job creation - particularly in the inner cities, which the Prime Minister has said is a priority for her third term.

This follows the appointment of Lord Young as Trade and Industry Secretary and Mr Kenneth Clarke as Trade and Industry Minister in the House of Commons. Both have moved over from the Department of Employment to replace Mr Paul Channon, now Transport Secretary. Other DTI ministers will be moved and responsibilities altered.

Mr Clarke said yesterday in a BBC radio interview that the unit concerned with co-ordinating inner city policy would move over with them. This is responsible for the task forces in these inner city areas which are being increased from eight to 16.

In other DTI areas, decisions have to be taken soon on the future of Britain's space programme and on the future of competition policy.

The appointment of Mr John MacGregor, previously Chief Secretary to the Treasury, in place of Mr Michael Jopling as Agriculture Minister is intended to underline Mrs Thatcher's determination to achieve tighter controls on farm expenditure.

Mr MacGregor will to-day fly to Luxembourg for a meeting of EC agriculture ministers with instructions to resist commission proposals for an oil and fats tax.

Mrs Thatcher and the Treasury have identified agriculture, and what they see as the privileges enjoyed by farmers, as high on the immediate agenda.

The other key move is Mr John Moore, from the Transport Department to become Social Services Secretary. Senior Tories believe that following criticism during the election campaign it is necessary to

Continued on Page 20

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Revlon expected to make $150m move for Charles of the Ritz

BY ALAN FRIEDMAN IN MILAN

REVLON, the US cosmetics group, is expected to pay more than $150m to acquire the mass-market product lines of Charles of the Ritz, the US perfume and cosmetics maker which is controlled jointly by the Yves Saint Laurent fashion house and Mr Carlo De Benedetti, the Italian financier.

Virtually all Charles of the Ritz assets except the upmarket Yves Saint Laurent and Gianni Versace perfume lines would pass to Revlon under the deal. It would be the latest in a flurry of ownership changes involving prominent names in skin care, fragrances and fashion.

An announcement, understood to be imminent, would come just six months after Yves Saint Laurent and Cerus, the French holding company of Mr De Benedetti, took joint control of Charles of the Ritz, at the time paying the US Squibb group $631m.

Mr De Benedetti's company also owns a 37 per cent stake in the Yves Saint Laurent French parent, as well as 12.5 per cent directly held in Yves Saint Laurent International, through which the Charles of the Ritz purchase was carried out.

Mr De Benedetti bought into Yves St Laurent last November, which struck followers of his more mainstream financial and industrial investments as an unusual foray into the world of fashion but which Mr De Benedetti's aides have described as a promising financial investment.

The deal would allow Yves Saint Laurent to dispose of all but the most upmarket (and most profitable) perfume lines, and raise cash in order to help finance the original Charles of the Ritz takeover.

Charles of the Ritz last year had total sales of $488m, of which around $300m came from the Yves Saint Laurent perfume line and the remaining $188m from cosmetics lines mainly in the US. It is believed that Yves Saint Laurent perfumes last year contributed around three quarters of Charles of the Ritz's $57m in pre-tax profits.

Analysts say that Revlon, controlled since 1985 by Mr Ronald Perleman, is aiming to boost its presence in volume beauty products, recently adding the Max Factor line among others. Assets which it is now buying include Bain de Soleil tanning products, Jean Naté bath products and perfumes, Charles of the Ritz cosmetics, and the Carrington and Forever Krystle perfume lines in the US derived from the Dynasty television series.

A separate indication of the reshuffle under way in the perfumes sector came at the weekend when Roussel-Uclaf of France confirmed its agreement to sell Parfums Rochas to Wella, the West German hair care group, for an undisclosed amount. Rochas had sales last year of some FFr 402m (67m).

Much of the Revlon-Charles of the Ritz deal is being handled by First Boston, the investment bank which has advised Yves Saint Laurent

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OVERSEAS NEWS

Peugeot targets US in attempt to lift exports

BY PAUL BETTS IN PARIS

PEUGEOT, the private French car group, is adapting its new Peugeot 405 medium-sized saloon to American standards in an effort to boost export sales in the US market.

Mr Jacques Calvet, chairman of Peugeot, and Mr Jean Boillot, president of the group's Automobiles Peugeot division, both confirmed during trials of the new 405 at the weekend that an *American version of the 405* would be sold in the US during the course of next year.

Up to now, Peugeot's performance in the US market has been disappointing, to say the least. After reaching a sales peak of about 20,000 in 1984, Peugeot sales to the US have been averaging some 12,000 to 15,0000 cars a year.

Asked if the recent retreat from the US market by Renault, the French state-owned car group which has sold its controlling interest in American *Motor Corporation to Chrysler*, would help Peugeot's new drive to penetrate the US market, Mr Boillot suggested that this was not likely to be the case. He said Renault's experience in the US had given "a bad image" to the French car industry in America.

The new 405 is being launched on the French market this month and in a number of other western European markets in September. The new car will be launched in the UK in December.

Production will be centred at Peugeot's Sochaux plant in France, where production of the 405 is due to reach 1,000 cars a day by the end of this year. *The new car will* also be produced at Peugeot's UK manufacturing plant at Ryton where production *is expected to reach* 150 cars a day in October.

Peugeot also plans to export the new car to developing countries. However, Mr Calvet *acknowledged* that Peugeot's traditional big developing country markets, in Nigeria and Iran, were at present extremely uncertain and depressed.

In Iran, *however*, where Peugeot sells car kits manufactured in the UK, the French group recently sold 700 kits.

The Nigerian market was at present very depressed, Mr Boillot said. From about 100,000 cars a year during good years, the Nigerian market was not expected to absorb more than a total of 5,000 to 6,000 cars this year.

Mr Calvet said he was very *pleased with the response to the* group's current FFr 2.8bn (£280m) new shares issue with equity warrants which had met strong demand in France and abroad. The capital increase *will enable Peugeot* to reinforce its balance sheet.

The favourable investor response reflects the French group's strong financial *recovery*. Peugeot recently reported consolidated group profits of FFr 3.6bn for 1986.

Mr Calvet disclosed that the group's production breakeven point would be around 1.3m cars this year compared to a group production expected to be *slightly above 1.9m cars*.

The breakeven point this year is nonetheless a bit below the group's original target of 1.2m cars. However, Mr Calvet said the 1.2m car breakeven point would be achieved next year. This eloquently reflected the *improvement in the car group's* operation, with the breakeven point steadily coming down from a colossal 2.3m in 1980.

Mr Calvet also confirmed that the Peugeot group intended to invest FFr 30bn during the next three years. This, he said, left little for other spending programmes and explained the reason why Peugeot had turned down various approaches to invest in the French Government's privatisation programme as a so-called core investor in one or more of the newly-privatised groups.

Soviet energy output increases

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET energy industry surpassed its targets in the first five months of the year, but the engineering industry is still facing difficulties, according to the Central Statistics Board.

Output of oil and gas condensate reached 258m tonnes, 2 per cent above the level for the same period last year, and gas production totalled 302bn cubic metres, or 6 per cent up on 1986.

The oil industry, where production had slipped in the mid-1980s, has benefited from a major injection of investment since Mr Mikhail Gorbachev became leader. Coal production, which had stagnated, also showed improvement with output put at 320m tonnes this year.

Industrial output as a whole was up 3 per cent, a little below the target of 3.2 per cent. The introduction of centralised quality control at the start of this year is hitting production and it may also have been affected by the bad winter weather.

The other bright spot in the figures published yesterday in the weekly Economacheskaya Gazeta is the increase in the production of basic foodstuffs. Output of meat was 4.5m tonnes during the first five months of *the year, or 8 per cent above* plan and 6 per cent above the figure for last year.

The economy is performing reasonably well but there is no sign of the rapid increase in growth which Mr Gorbachev says he wants to achieve through radical *reform of the* economic system as a whole.

The Kremlin will be pleased that the energy industries are doing better, but the fall in the price of crude means that export earnings are seriously below the levels expected in the early 1980s.

US asks Greece for talks on bases

BY ANDRIANA IERODIACONOU IN ATHENS

THE US HAS formally requested the start of negotiations with Greece on the future of the four American military bases here beyond December 1988, when the present agreement on their operation expires.

According to the Greek Foreign Minister, Mr Karolos Papoulias, the negotiations will begin in September, on a level to be decided in consultation with the US ambassador to Athens, Mr Robert Keeley, in the coming weeks.

The American request for the start of talks was delivered to Mr Papoulias by Mr George Shultz, the US Secretary of State, while both were in Reykjavik for the Nato foreign ministers' meeting last week.

Greece's Socialist Prime Minister, Dr Andreas Papandreou, announced in a surprise move last month that he will seek a referendum on the bases issue before initialling or signing any agreement resulting from negotiations on the bases' future.

The Prime Minister has also said he intends to link the negotiations to US policy on issues of national interest to Greece, understood to include disputes with Turkey.

The referendum move is being seen as a bid to silence left-wing opposition to the continued presence of the bases in Greece, six years after the Socialists came to power on a platform of closing down the US facilities.

Crisis meeting on farm costs

By Quentin Peel and Tim Dickson in Brussels

EC FINANCE Ministers will today be urged to read the riot act to their farm minister colleagues to persuade them to cut their costs — or themselves finance soaring farm spending.

A crisis "jumbo" meeting of both farm and finance ministers of the 12 member-states has been summoned today in a new effort to break the *months-old* deadlock in this year's EC farm-price negotiations.

At stake is the effort by the European Commission to cut Ecu 1.1bn (£760m) from farm spending this year, to reduce a forecast budget overrun of some Ecu 4bn on *agriculture alone*.

The price package is supposed to make even greater savings in the farm budget in 1988 — but already the agriculture ministers have whittled down the cuts to a bare Ecu 40m in a series of compromises, *without getting significantly* closer to a final package deal.

The stalemate on farm prices has left the community facing a twin crisis. On the one hand, without major cost cuts the member-states face the likelihood of budget deadlock, with major contributors like West Germany and the UK refusing to find more cash.

On the other hand, with the new cereals marketing year due to begin on July 1, the failure to agree prices could soon cause major disruption, and *is already* causing uncertainty in the trade, especially in southern Europe where the harvest has already begun.

Mr Jacques Delors, the *president of the Commission*, asked for today's meeting to be summoned in an effort to counter the "*budgetary schizophrenia*" of the Council of Ministers — with the finance ministers demanding savings, and the agriculture ministers ignoring them.

Officials in Brussels fear, however, that while the exercise may prove the point, it will fail to find a solution, with the finance ministers refusing to get tough with their colleagues. The farm ministers will then carry on meeting *on their own* without a real incentive to make new cuts.

The European Commission itself has put forward a number of *tough measures in this year's* price package to halt the growing farm surpluses in the EC, notably in the cereals sector.

But after nine days of discussions over the last three months, and two compromises proposed by Mr Paul de Keersmaeker, the *Belgian minister* in the chair, at least two key items remain unresolved.

These are the proposals for a hugely controversial tax on *oils and fats — intended to* generate some Ecu 2bn in extra income this year and next—and a reform of the complex *agri*-monetary system of "green" currencies and monetary compensatory amounts (MCAs), which protects EC farmers *from the full effect of currency* fluctuations.

West Germany is adamantly opposed to the MCA changes, which would impose additional price cuts on German farmers, and Mr Ignaz Kiechle, the German agriculture minister, is expected to veto this part of the package.

The oils and fats measure—a levy on all domestically-produced and imported *vegetable and marine oils — is* blocked by at least four member states, the UK, West Germany, the Netherlands and Denmark, all of whom fear a trade war with the US.

The betting in Brussels is for a marathon Farm Council after the finance ministers leave Luxembourg tonight, with the dire prospects of both oils and fats, and MCA reform, being sent to the EC summit at the *end of the month for final* resolution.

Soviet youths go on rampage

ABOUT 150 young people rampaged outside a police station in the Soviet Far East, overturning cars and smashing windows, the official Soviet newspaper *Sotsialisticheskaya* Industria said yesterday, Reuter reports from Moscow.

The disturbances occurred on June 2 in Komsomolsk-na-Amure, about 1,000 km north-east of Vladivostok, it said.

FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the *Board of Directors*, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: R.A. Harper, Frankfurt/Main. Guiollettstrasse 54, 6000 Frankfurt am Main 1. © The Financial Times Ltd, 1987.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y. 10022.

Patrick Smith in Lagos on the UN Economic Commission meeting

Africa's unforgiving debt hinders promised reform

THE *United Nations Economic* Commission for Africa (ECA) conference to review the UN's programme of action for African recovery and development opens today in Abuja, Nigeria, as the prices for the continent's export commodities *fall steeply, the cost of its imported* manufactures keep rising and its debt servicing commitments continue at high levels.

The UN programme of action, a plan to cover *1986–90*, focused on restructuring the continent's agricultural policies to promote bigger food production, on building up agriculturally based industries and related infrastructure, on reversing the effects of drought and desertification and *on wide-ranging reforms* of Africa's education and occupational training systems.

African governments were to underpin these objectives by undertaking *internationally* agreed programmes of market-oriented economic reforms.

Some 22 African countries have IMF-World Bank-supported economic adjustment programmes under way.

The *five-year programme*, launched at the *UN special session* on Africa in June last year, was estimated to cost $128.1bn, of which African countries were expected to raise *$82.5bn*, with the international community's contribution at $45.6bn. Although the programme was endorsed by the international community at the UN special assembly, no specific commitments were made on the level of assistance.

Mr Adebayo Adedeji, the executive secretary of ECA, said in Lagos on his way to the conference that, since last year's UN special session on Africa, conditions on the continent had worsened considerably. *Africa's earnings from commodity* exports fell by $19bn in 1986 from their level in 1985, Mr Adedeji said, while the cost of the continent's imported manufactures had risen by 14 per cent.

Despite continuing debt resched*uling negotiations the region's debt* service commitments would be between $12–14bn, Mr Adedeji said. Africa's external debt rose by 8 per cent in 1986 to $175bn.

Africa's current account deficit tripled to $21bn during 1986, he added.

If these financial trends contin*ued throughout the five years of the* UN programme, he said, the level of international financing required for the programme would rise to between $70bn and $90bn.

Lack of support for the programme, both in new concessionary financing and "debt forgiveness," will be one of the key issues raised at the five-day Abuja conference.

Other broad issues under discussion will include a critical reassessment *of the prospects for economic* recovery and medium-term development in Africa, given the lack of economic progress in the face of the stabilisation and structural adjustment policy packages implemented over the last five years.

This discussion will be informed by recent criticisms of IMF and *World Bank policies* in Africa made by the governments of Sierra Leone and Zambia. On May 1 the Zambian Government announced it was breaking with the IMF's policy reform programme.

Participants at the conference include officials from the UN, government ministers and officials from multinational financing and policy study institutions. They will undertake a comprehensive review of *progress made under the first year* of the UN programme and submit their findings to July's summit meeting of the Organisation of African Unity in Addis Ababa, Ethiopia, *and the next UN special session on* Africa in September.

Sudan to resume talks with creditors

SUDAN resumes talks today in London with representatives of the "London Club" of 104 creditor banks in an attempt to reschedule debts totalling $1.6bn Reuter reports from Khartoum.

The Sudanese side at the three days of talks will be led by Mr Ismail *al-Mousbah, Governor* of the Bank of Sudan. At least 10 of the creditor banks, including Chemical Bank and Citibank of the US and West Germany's Deutsche Bank, will be represented, according to the official Sudan news agency SUNA.

The Sudan Government held in*conclusive talks with creditors* earlier this year on the debts, many of which have resulted from loans contracted in the 1970s to finance imports of basic commodities such as oil products and sugar.

Sudan and the banks reached rescheduling agreements in 1980, 1982 and 1985, but they all fell through because *of Sudan's inability* to pay.

Sudan, one of the world's poorest countries but with great agricultural potential, has a total foreign debt of $10.6bn. The International Monetary Fund said 16 months ago that the country was ineligible for any fresh loans.

Nato gets its act together at last

Robert Mauthner in Reykjavik assesses one of the alliance's most constructive ministerial meetings for a considerable time.

THE NATO foreign ministers' meeting, which ended in Reyk*javik at the weekend*, has been one of the most constructive for a long time, following a period during which *Mr Mikhail Gorbachev* has played cat-and-mouse with the alliance.

The Soviet leader's frequent and far-reaching arms control proposals have wrong-footed Nato repeatedly over the past year, *and given the impression* that the Western nations were both less enthusiastic than the Soviet Union about arms control and less capable of taking new initiatives.

Now, at last, after eight weeks of European dithering, the US has persuaded its allies to endorse an effective mandate for its negotiations with the Soviet Union in Geneva on the reduction of intermediate range nuclear forces (INF), thus greatly enhancing the chances of an early agreement.

It has been clear ever since Mr George Shultz, the US Secretary of State, visited Moscow last April that Washington — for reasons that probably have as much to do with President Ronald Reagan's domestic difficulties as with his views on arms control — wanted to respond *positively* to *Mr Gorbachev's* so-called "double zero option."

Yet the US Administration patently did not want to repeat the painful experience of last October, when its European allies severely criticised Mr Reagan for failing to consult them before making *his far-reaching* nuclear disarmament proposals at the Reykjavik summit.

This time, the Whie House *and State Department decided*, the consultation process was going to be as complete as possible, however long it took to bring the European allies *around to the US point of view*.

The exercise was, in a sense, facilitated by the fact that, at a relatively early stage, West Germany was isolated within *Nato over Chancellor* Helmut Kohl's desire to see the shortest-range missiles—up to 500 km—included in a deal to remove all medium-range *missiles from Europe*.

Isolation from the US and its other allies is something that Bonn has always tried to avoid since the Second World War. *After Britain and France* had finally given their qualified approval to the "double zero" it became only a matter of time before West Germany, in *spite* of the sharp divisions within its coalition, would give Washington what it wanted.

Bonn feels that its honour has been satisfied by a paragraph in the final Nato communique referring to a new "concept of arms control and disarmament" to be worked out by Nato's Permanent Representatives. This concept, or catalogue of objectives, would include "tangible and verifiable reductions" of US and Soviet short-range nuclear systems down to an equal ceiling.

The argument of the hardliners in Mr Kohl's Christian Democratic Party has always been that West Germany would become even more vulnerable *to war in Europe if short-range* systems were the only nuclear weapons to remain on European soil, since they would all be used within West Germany's *borders*.

The US, Britain and France, *on the other hand*, are much more worried about the dangers of the "denuclearisation" of Europe because it would put paid to Nato's strategy of *flexible response*.

As far as the alliance as a whole is concerned, short-range nuclear weapons cannot be dealt with in isolation from the balance of conventional forces and the elimination of chemical weapons, and their reduction can be decided only in that context. In other words, if *linkage there is, it is* no longer between an INF agreement and short-range nuclear weapons, and Mr Shultz made it plain that reduction of the latter came very low down on the list of Nato's priorities.

The other important development at the conference—the settlement of the disagreement between the US and France over the institutional framework *in which future* conventional arms negotiations are to be held with the Warsaw Pact countries—will at last allow preparations for the follow-up *to the moribund* Vienna-based mutual and balanced force reduction (MBFR) talks to proceed.

Behind the more obvious *results of the conference* were France's unspoken, almost surreptitious attempts to become more involved in Nato's military activities, from which it withdraw in 1966.

There is clearly no intention on the part of the French to reverse that formal decision. However, the present French Government appears to regret that France dissociated itself from the so-called Nato "twin-track" *decision of 1979*, under which it was decided to deploy Pershing 2 and cruise missiles in Europe, pending an arms control agreement.

France's decision on that occasion has seriously undermined its capacity tot influence the subsequent nuclear arms debate, and that realisation has clearly been behind its agreement to participate in the elaboration of the new Nato arms control concept. France's rapprochement with Nato is taking place in small steps, but it is not less real for all that.

Latin America plans oil relief for Nicaragua

BY DAVID GARDNER IN MEXICO CITY

LATIN AMERICAN leaders are expected to decide this week to go ahead with a regional plan to supply Nicaragua with oil, as the beleaguered Central American nation's fuel crisis comes to a head.

The plan is part of an ambitious initiative to help bring peace to Central America by facilitating a Soviet disengagement from left-wing Nicaragua.

The immediate cause of the oil crunch is Moscow's decision not to meet fully Nicaraguan fuel requirements this year. A final decision on the plan is expected "by next week at the latest," a senior Latin American government official said late last week.

What lies behind the Soviet move is Moscow's desire to signal clear limits to its interest in Central America by gradually scaling down its involvement with Nicaragua.

Latin American nations, led by Argentina and Mexico, thus see the opportunity to step into the gap and, as it were, "recover" Nicaragua, undercutting the Reagan Administration's contention that the Sandinista revolution is a Soviet beachead on the American mainland.

The outline formula is expected to involve non-oil-exporting nations, especially Argentina, helping to finance shipments by major oil producers, led by Mexico and assumed to include Venezuela.

The final decision on who participates may now be affected, however, by the sudden postponement late Friday of the summit of five Central American presidents to discuss President Oscar Arias of Costa Rica's peace plan for the region, which was due to be held on June 25-26.

The postponement was announced unilaterally by Honduras and El Salvador, Washington's two main clients in Central America following last week's tour of the region by Mr Philip Habib, President Reagan's special envoy to Central America.

Mr Simon Alberto Consalvi, the Venezuelan Foreign Minister, was quoted as saying that Mr Habib expressed Washington's unhappiness that the Arias plan does not envisage participation by the US-backed Nicaraguan Contras in talks which would take place between the region's governments and insurgents after a ceasefire.

Nicaragua's Sandinista Government, which is fighting newly rearmed Contra rebels and the effects of Washington's three-year-old trade embargo, has desperately been seeking alternative oil supplies, mainly in Latin America, in the past six weeks, after being informed by Moscow of the new restrictions.

Nicaragua relies on the Soviet bloc for practically all its oil, as well as arms and the minimum essential balance of payments support to keep it afloat. Originally it got its requirement of roughly 15,000 barrels a day on concessionary terms under the San Jose Accord operated by Mexico and Venezuela for all Central Americans and some Caribbean countries.

Venezuela ended shipments to Nicaragua in late 1983, citing unpaid oil debts of $30m (£18m) but motivated more by unease at the leftward drift of the Sandinistas, who came to power in a 1979 revolution.

Mexico made up the shortfall until the Soviet Union began making major deliveries in early 1984, but suspended shipments in mid-1985, when Nicaragua owed it over $500m. Since then, it has made one, cash-on-delivery shipment.

Under the most optimistic scenario, senior Latin American officials say, Mr Reagan—whose Central American policy is in disarray because of the twin fiascos of Irangate and the Contra army's increasingly manifest unwillingness to fight—might just welcome a new opportunity to negotiate a regional settlement in the last year of his mandate. Mr Habib's mission last week appears to have dented this optimism.

In return for being bailed out, the Sandinistas, it is understood, will be required to cooperate fully in seeking a regional settlement. They had already cautiously backed the Arias plan and offer to meet the US's "genuine" security concerns at bilateral talks in 1984 by undertaking that they would allow no Soviet bases, send home East bloc and Cuban advisers, buy no sophisticated weaponry, and not "export the revolution" to their neighbours.

They signed one draft of the Contadora peace treaty and offered to sign another, and submitted a detailed disarmament offer after the last Central American presidential summit in Guatemala last year.

Kabul 'ready for talks with exiles'

DR NAJIB, the Afghan leader, has said his government is ready for contacts with supporters of the exiled King Zahir Shah, Afganistan's former monarch, to promote a settlement of the country's six-and-a-half year-old civil war, Tass, the official Soviet news agency, said yesterday, Reuter reported from Moscow.

"Time is passing, and we cannot stay in temporising positions," Tass quoted Dr Najib as telling a Communist Party Central Committee plenum in Kabul last Wednesday. "It is necessary to use the possibilities for entering into contact with monarchist forces, political activists of former regimes, and well-known and authoritative clergymen."

Diplomats in Moscow said the Soviet Union, which intervened militarily in Afghanistan in December 1979, had been quietly promoting the idea of the king's supporters taking part in a coalition government in Kabul.

Zahir Shah, 73, ruled Afghanistan from 1933 to 1973. He lives in exile in Rome. Soviet leader Mikhail Gorbachev indicated last month that the Kremlin would not object if the Kabul authorities sought political contacts with Zahir Shah.

He told the Italian Communist Party newspaper L'Unita that the Afghan leadership was free to seek partners for its policy of "national reconciliation" among Afghan refugees and emigants in foreign countries, including Italy.

The former king practised a brand of Soviet-orientated non-alignment in his 40-year rule and has shunned efforts to create a government-in-exile during his time in Rome. Western specialists say the king favours a traditional government that would have Communist participation but would include tribally-based leaders in exile and guerrilla commanders.

Dr Najib told the Central Committee meeting that state power in Afghanistan would assume a more representative character in the future. "Realistic military - political forces will be able to have access to power, if they pledge to serve the principles of reconciliation in mixed organs of state power," he said

But he said he would have no dealings with those fiercely opposed to his "national reconciliation" policy, which Kabul presents as an attempt to end the war between the Soviet-backed authorities and Moslem rebels.

The Government has finally woken up to the dire situation, writes Ivo Dawnay

Brazil confronts the economic abyss

BRAZIL has at last slammed on the brakes, and not before time; the public had been howling for weeks for someone—anyone—to bring the economy back under control.

Yet the government of President Jose Sarney had appeared wholly oblivious of the danger, promising publicly to cut federal expenditure, while simultaneously announcing a series of grandiose public works projects and disbursing billions in handouts to bankrupt state governments and companies.

Only last week did the message so plainly heard by business and the general public finally get through to the rarified air of Brasilia.

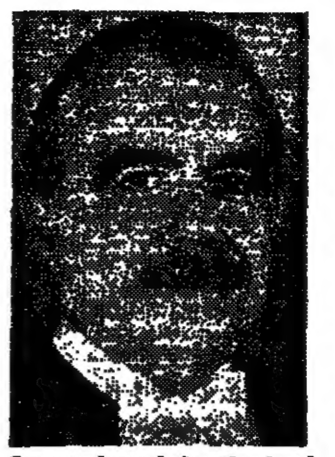
May inflation of 23.2 per cent implied an annualised rate of 1.123 per cent. The independent Getulio Foundation think tank was predicting 30 per cent retail price rises in June and the Sao Paulo Industrialists' Federation, Fiesp, estimated that a third of all Brazilian business was now, in effect, bankrupt.

Furthermore, Treasury figures made clear that the 1987 public sector borrowing requirement, forecast at 1.7 per cent of gross domestic product, was now at 6.7 per cent—and this without including tens of billions of dollars newly committed to rail, steel and energy projects.

What is less clear is whether Mr Luiz Carlos Bresser Pereira, the Finance Minister, wanted a price freeze now. The suggestions are that he hoped to allow more time for relative prices to come back into balance before imposing one. But by the end of last week, there was no choice. Anticipation of a new freeze had triggered a fresh surge of rises as supermarkets worked through the night to mark up goods.

The question now uppermost centres on whether a measure that was greeted in last year's Cruzado plan with such universal jubilation, can work again on a cynical, surly and wholly demoralised public. The answer will decide not only the political future of Mr Sarney, but the whole course of the country in the medium term, as well as the context in which crucial talks on Brazil's $113bn foreign debts take place.

To the surprise of many, there are some good signs. First and foremost, the seriousness of the crisis has allowed Mr Brezer Pereira the political space to substitute real action for rhetoric about cutting government spending, by shelving some $35bn in capital projects, raising or removing costly subsidies on wheat, milk and alcohol fuel, and lifting state enterprise tariffs by more than 30 per cent on steel, electricity and telephones.



Sarney: braced for the howl of protest

Also vital are new independent powers for the central bank which allow it to refuse to finance Treasury deficits. But, perhaps, most important are the ways in which the terms and context of the price and wages freeze differ from its ill-fated predecessor.

The three crucial changes are:

● The package does not promise zero inflation, acknowledges a measure of flexibility and undertakes to lift the freeze gradually after a maximum of 90 days.

● The temporary abandonment of wage indexation and the real fall in disposable incomes eliminates all risks of demand-fuelled upward pressure on prices.

● Finally, the plan clearly defines the path to be taken out of the freeze, with prices and wages to be allowed only quarterly retrospective inflation adjustments, before free-pricing and barganing return.

The negative side of the equation centres on the Government's ability to manage the political fall-out from the package. After months of promising no recession or loss of real earnings, Mr Sarney must steel himself for the howl of public fury.

In addition, with mass resignations among leaders of the main price policing agency last month, there are serious doubts whether business can be forced to hold the line. The greatest hope is that the consequences of not doing so are so critical that self-discipline will prevail.

The Government must also hope that the international community—not least its creditors—will react sympathetically. Morally, at least, they should. Brazil's programme, price freeze excepted, is as close to an austere International Monetary Fund package as can reasonably be expected.

The bankers, however, will examine in detail projections on trade performance and public expenditure before making their judgment. Any deal concluded in rescheduling talks now imminent will depend as much on the resolution of internal disputes about responsibility for a bail-out between a highly alienated and divided commercial sector and the institutional and sovereign country creditors as on Brazil itself.

In an emotional attempt to lift his nation's spirits, President Sarney concluded his Friday television address with a declartion of personal optimism. "God always helped Brazil," he said. Fingers are crossed that Brazil's foreign creditors — the banks, the IMF and Paris Club sovereign lenders — will feel equally generous, and that, meanwhile, the freeze holds.

White House urged to shelve Gulf tanker escort plan

BY LIONEL BARBER

PRESIDENT REAGAN was yesterday urged to shelve the US plan to escort Kuwaiti oil tankers in the Gulf.

Two senior Democrats—Senator Sam Nunn of Georgia and Senater Claiborne Pell, chairman of the senate foreign relations committee — gave warning that they opposed the plan to extend the protection of the American flag to Kuwaiti vessels.

Congresional opposition to the escort plan has remained high among Democrats and some Republicans who fear the US could be sucked into the Iran-Iraq war. This weekend, the threat to American lives was highlighted by a congressional report on the Iraqi air attack on the US frigate Stark in which 37 US sailors were kiled.

The House armed services committee report faulted senior officers on the Stark who failed to react soon enough to the threat ofthe approaching Iraqi fighter. The equipment on board was not faulty and the rules of engagement adequate, but "because of Iraqi tactics, this was an accident waiting to happen," said Congressman Les Astin, committee chairman.

Senator Nunn said he was sceptical about the escort plan which he believed represented a strong tilt to Iraq in the Gulf war. Senator Pell, who has introduced blocking legislation in Congress wrote in the New York Times that the US should promote a mandatory UN Security Council arms embadgo against Iran.

The Adminstration is shortly to give Congress details of its escort plan, but Senator Nunn said it should be delayed so the whole US policy in the Gulf could be worked out between Congress and the executive.

Tensions between the US and Iran rose this weekend amid a magazine report from Lebanon that some American hostages held by pro-Iranian guerrillas had been moved to Iran where they could undergo "severe interrogation." The US State Department said if the report were true, the Adiministration would hold the Iranian Government directly responsible for their safety.

The report came from the Beirut weekly Ashi-Shiraa — which disclosed US arms sales to Iran — but was later denied by the Iranian embassy

Banks reopen in Panama

BY PETER FORD IN PANAMA CITY

PANAMANIAN banks announced on Saturday they would reopen their doors today, ending a four-day strike in support of efforts to oust military strongman General Manuel Antonio Noriega.

"This was a business decision," said Paul Smith Alegre, president of the Panamanian banking association, which represents the overwhelming majority of banks here.

The move appears to pull many of the teeth of the "National Civic Crusade" which last week called a nationwide business strike demanding Gen Noriega's removal as head of the armed forces.

Mr Smith said foreign clients of Panamanian banks had shown "no sign whatsoever" of removing their funds from Panama during last week's trouble, which included riots in the financial district. Most banks are understood to have continued international transactions during the strike.

Marcos backers in plea to Shultz

SEVEN HUNDRED supporters of ousted Philippines President Ferdinand Marcos demonstrated yesterday outside the Manila hotel where US Secretary of State George Shultz is staying and urged him to bring Mr Marcos back to the Philippines, Reuter reports from Manila.

In a letter to Mr Shultz, they asked the US to withdraw its support for President Corazon Aquino, saying the Communist insurgency had worsened since she became president.

Shamir in African 'mystery tour'

By Our Foreign Staff

ISRAEL'S Prime Minister Mr Yitzhak, Shamir, begins an African tour today designed to symbolise the country's growing renewal of relations and co-operation with black Africa. —Chaotic planning and political uncertainy have created uncertainty until the last minute which countries Mr Shamir would visit and for how long. Barring further surprises, he was due to visit Togo, which last week became the latest African state to restore relations with Israel, Cameroon which did so last year, and Liberia, among the first to restore ties severed during the 1973 Middle East war.

He may also stop over in the Ivory Coast, which restored ties last year

Black African governments which embarked on cordial relations with Israel in the late 1950s and 1960s are once again looking to the Jewish state in growing numbers for security and defence assistance, and for agricultural know-how.

"The problem is their expectations are out of all proportion to what we can provide," says a senior Africa expert in the Israeli Foreign Ministry.

Among the grounds for the revival of links are the proven efficacy of Israeli security, Israel's recent tentative steps to distance itself from South Africa, a waning of radical Arab influence in Africa and a strong desire to court favour with the US and its powerful congressional Jewish lobby.

Besieged students in Seoul win support from church leaders

BY MAGGIE FORD IN SEOUL

HUNDREDS of students besieged in Seoul's main Roman Catholic cathedral attracted continuing support from office workers and worshippers over the weekend as fears grew that the Government was considering emergency methods, including the imposition of martial law, to stop the protest.

Catholic leaders, who have declared their backing for the students' stand in support of democracy, yesterday failed in negotiations with the police to win a guarantee of safe conduct for the students if they leave the cathedral.

Analysts believe that arguments are continuing within the ruling Democratic Justice Party and the Government over how to handle the students, especially following the demonstrations of public support for their stand.

Thousands of market traders and passers-by joined the students at the weekend, singing the national anthem and demanding that the police stop firing tear gas. The Government has blamed the opposition Reunification Democratic Party for the violence, the worst since 1980. Thirteen opposition leaders including the deputy leader of the party, Mr Yang Soon Jik, were arrested late on Friday night.

Support for the opposition itself seems to have been boosted since Wednesday's rally. One of South Korea's leading television comedy stars has been forced to resign from his job after a critical comment he made about the opposition party sparked a deluge of protests from viewers.

Although the violence in Seoul abated yesterday in an aparent effort by the police to persuade the students to give up, public criticism continued to mount about the police use of tear gas.

A second football match between the US and South Korea had to be stopped during a demonstration, raising concern in the Seoul Olympic Committee about the possibility of problems during the 1988 Olympic Games.

Hints began to emerge yesterday that the Government may try to defuse the violence by closing the universities early for the summer holidays. About 16,000 students demonstrated nationwide at the weekend against the Government, and Seoul students have persistently tried to march to the cathedral in support of their besieged fellow protestors. In the provincial town of Chonju, demonstrators succeeded in overcoming riot police to march to the centre of town.

The Government will also be concerned about the political effect of the imminent death of a student hit by a tear gas shell last week. The student is on a life support machine and doctors said yesterday his condition had worsened. Along with the victim's family, about 300 students are holding a vigil at the hospital to prevent any intereference by the authorities.

Sri Lanka agrees to join in Asian talks

By Mervyn de Silva in Colombo

Mr Shaul Hameed, the Sri Lankan Foreign Minister, will leave for New Delhi on Wednesday to participate in the South Asian foreign ministers' meeting, the Colombo government announced yesterday.

It is the first public sign that Sri Lanka, which had announced that it would boycott the meeting, is now keen on easing tensions with its big neighbour after Indian air force aircraft intruded into Sri Lanka airspace to drop relief supplies in the Jaffna peninsula, the separatist Tamil stronghold.

India reacted to the boycott decision by saying that it would be "constrained" to postpone the meeting. Four member-governments, Pakistan, Bangladesh, Nepal and the Maldives which had all condemned the Indian action, promptly appealed to Colombo to reconsider its decision, giving Sri Lanka a diplomatic opening which it eagerly seized.

Yesterday, Mr Hameed wrote to the foreign ministers thanking them for their "concern" to preserve the unity of the South Asian body, a two-year-old regional body.

In another move to repair the damage, Mr Hameed said that ways to receive and distribute more Indian food and medical supplies to the Tamil north were being worked out by his ministry and Mr Mani Dixit, the Indian high commissioner.

Meanwhile, Mr Athulathmudali, the national security minister, said that the "suspended" military operation in the north would be resumed if the main rebel group, the Tamil "Tigers," did not show any willingness to negotiate.

The minister, who left for Europe and the US yesterday, denied that the government was interested in purchasing an "air defence system."

The rules of the South Asian forum do not permit the discussion of bilateral disputes. But Mr Hameed is expected to take up the recent Indo-Sri Lankan frictions at a separate meeting with his Indian counterpart, Mr N. D. Tiwari. Sri Lanka will, however, participate in the debate on the general topic of "terrorism."

Anthony Robinson on foreign companies' resistance to Botha

Pretoria risks business exodus

SOUTH AFRICAN and foreign business leaders have warned the government that it faces a further mass exodus of foreign companies unless it drops proposed legislation obliging companies to deduct rent arrears from employees wages.

The Ford motor company, which merged its wholly-owned South African subsidiary with Anglo-American Corporation's car division and emerged with a 42 per cent stake in a new company called the SA Motor Corporation (Samcor) in 1985, is again considering pulling out. But the latest legislation could prove the last straw for many other European as well as American companies.

Their resistance to domestic anti-apartheid and disinvestment lobbies has already been weakened by the right-wing shift in the May 6 whites-only elections, statements by government ministers that foreign companies will have to comply with a more strictly applied Group Areas Act, and reimposition last week of the nationwide state of emergency. On May 31, the Rev Leon Sullivan, author of The Sullivan Code of Business Principles, called on all remaining US compaines to withdraw within nine months after the expiry of his two-year timetable for the abolition of apartheid laws by Pretoria.

Privately, business leaders are appalled at Pretoria's seeming insensitivity to the international consequences of political decisions designed to boost the power and authority of black political councils while, at the same time, appeasing right-wing whites.

The Promotion of Local Government Affairs Amendment Bill, introduced in Parliament last week, is aimed at getting business to re-coup the estimated R271m (£80m) which township tenants have refused to pay black local councils.

In recent weeks local authorities have stepped up evictions of non-payers, a practice which several times in the past has led to bloody conflicts between tenants and township police.

Elections to the new councils were heavily boycotted in 1983 and they are widely considered to be corrupt and venal handmaids of Pretoria. But the government has given high priority to breaking the rent boycotts. This is part of its strategy of improving the financial base of the underfunded black councils which are a key building block in Pretorias version of future black-white power-sharing.

Mr Bill Hubbard, senior vice-president of the American Chamber of Commerce in South Africa, warned that if the government went ahead with plans to force multinationals to collect rent from black employees it could lead to a wave of industrial unrest and make it impossible to resist domestic pressures to join the exodus from South Africa.

Over the past 18 months, at least 78 US companies have disinvested, mainly by selling their assets to South African companies, or by leveraged management buy-outs. The departure of companies such as IBM, General Motors, Exxon, Kodak, Procter and Gamble, Rank Xerox, has greatly increased the pressure on remaining US companies, such as Ford, Mobil, Johnson and Johnson, and Colgate-Palmolive, which believe they can contribute by remaining and taking part in Sullivan code job and social enhancement programmes.

Several European-based multinationals such as Shell and BP will also now come under increased pressure to follow the example of companies like Barclays. The British-based banking group sold its remaining stake in the former Barclays National Bank to Anglo-American Corporation companies last October.

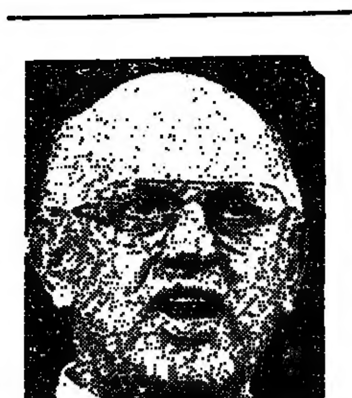
Ford, in particular, has come under increased pressure following General Motor's decision to sell out to local management last year. Ford presently has a minority 42 per cent stake in Samcor. This produces Ford laser, Sierra and light pick-up models at plants north of Pretoria which also assemble several Japanese models. Ford added to the severe unemployment problems of the Eastern Cape when it closed its Port 1985 as part of its deal with Anglo-American. Industry sources say that relucatance to cause the same hardship to its black workers in the Mamelodi township north of Pretoria has been a major factor delaying Ford's departure.

Anglo-American, like several other South African blue chip companies, has benefited from disinvestment by picking up foreign companies trade marks, technology and management skills often at relatively low prices.

But Anglo-American's management is deeply concerned about the longer-term implications for South Africa of cutting itself off from foreign capital, technology and knowhow.

These fears are well understood at the reserve bank and some levels of government. But it does not appear to be so well understood at the highest reaches.

Now the government appears committed to further legislation which, like the Group Areas Act, again exposes foreign business to accusations of collaboration with apartheid policies.



President Botha: has appalled some businessmen

FORD of the US is negotiating to dispose of its South African arm but its cars will still be available locally, an industry official said, Reuter reports from Johannesburg.

Mr Leslie Boyd, chairman of the South African Motor Corporation (Samcor), in which Ford has a large shareholding, said Ford was negotiating the transfer of shares to a trust for the benefit of its predominantly black workforce.

He said discussions were still at a formative stage but Ford agreed to allow the continued sale of its products in South Africa under its trade mark.

US 'pressing for Falklands talks'

PRESIDENT Raul Alfonsin of Argentina said the US and Switzerland were pushing for talks between Argentina and Britain over the Falkland Islands, Reuter reports from Buenos Aires.

Mr Alfonsin said the US was working "very strongly" to start talks between the two countries, but that it had made no concrete proposals. He said Washington was "permanently bothered" by the Falklands dispute.

"The United States ... has, in the first place, a problem which is the responsibility to defend its continental alliance (with Latin America), and another problem which is defending its Atlantic alliance," Mr Alfonsin said aboard his presidential plane, returning fom a four-day visit to Switzerland.

His comments were reported by local newspapers.

Britain and Argentina have been at a diplomatic standoff since the brief but bloody war they fought in 1982 over the windswept islands, which Argentines call the Malvinas.

Argentina's then-military Government invaded the South Atlantic archipelago in an effort to make good on a 150-year sovereignty claim but was defeated by a British task force.

Mr Alfonsin said Switzerland "seeks to insist on the possibility of a dialogue" between Argentina and Britain and that Mr Pierre Aubert, the Swiss President, was "a bit more optimistic than before" about getting talks started.

The two countries held unsuccessful talks in Switzerland shortly after the 1982 conflict. The negotiations broke down due to Argentina's insistence on discussing the future sovereignty of the islands and Britain's refusal to do so.

The countries have had no diplomatic relations since the war, but Britain keeps an interests section in the Swiss embassy in Buenos Aires and Argentina does likewise in the Brazilian embassy in London.

Alfonsin reiterated his country's refusal to hold talks with Britain if London continues to regard sovereignty as not negotiable.

"We are holding dialogues with countries that have great interest in solving problems, but we are not holding dialogue with Great Britain," he said.

African Development Bank lifts capital

BY TONY WALKER IN CAIRO

A 200 PER CENT increase in the capital of the African Development Bank was greeted as its "main achievement" at the annual meeting which ended in Cairo at the end of last week, according to Mr Babacar N'Diaye, the ADB president.

Mr N'Diaye said, in an interview at the end of the three-day meeting, which was overshadowed by African debt problems, the increase in capital from about \$6.3bn (£3.8bn) to \$19.6bn would widen the bank's base for borrowing.

He expects that it will be in a position to lend between \$5bn and \$6bn in the next five years.

The paid-up portion of the additional capital pledged by regional and non-regional shareholders will amount to 6.25 per cent.

Non-regional shareholders from the industrialised world will pay their share of additional capital over five years. African states have been given 10 years in which to pay.

The ADB's shareholders include 50 African states and 26 non-regional members, among them the US, Japan and West Germany.

Among other resolutions was an agreement to hold an inter-African conference on African debt, which totals \$175bn.

Discussion on a debt conference proved divisive, with several industrialised countries —notably the US opposing the idea, which was first proposed by the Ivory Coast.

Mr N'Diaye said differences over a debt conference sprang from a misunderstanding. He said the aim of the proposed gathering was to review the debt problem from an African perspective and perhaps propose some solutions.

The US delegate urged that African debt be dealt with in the Paris Club of industrialised creditor nations, the World Bank, the International Monetary Fund and the ADB itself.

Other resolutions approved at the ADB meeting were for a feasibility study to establish an African Export/Import Bank, and for a committee of gerional and non-regional experts to prepare a report on the ADB to coincide with its 25th anniversary in 1989.

Debt was the main preoccupation of the Cairo meeting.

Peruvian bank chief resigns

By Barbara Durr in Lima

THE president of Peru's Central Bank, Mr Leonel Figueroa, has presented his resignation, but President Alan Garcia has not yet said whether he has accepted it.

Mr Garcia is widely believed to have prompted Mr Figueroa's move after the central bank's attempt to control the dollar black market floundered last week.

In an effort to bring down the price of the dollar on the black market, the bank permitted any Peruvian to buy \$4,500 in foreign currency.

This produced a massive demand on the banking system, confirming the dollar's high price rather than lowering it by much. The dollar had fallen from 34 intis to the dollar to approximately 29 intis

OVERSEAS NEWS

Taiwan to lift controls on investing abroad

BY BOB KING IN TAIPEI

REVIEW COMMITTEES to Taiwan's Parliament have approved the lifting of controls on outward foreign exchange movements, paving the way for possible massive investments by Taiwanese in companies and stock markets abroad.

Under the new system, both corporations and individuals will be allowed to hold and to remit foreign currency abroad. The Government seeks through such remittances to reduce its foreign exchange reserves, which have surpassed $60bn and which threaten to ignite inflation.

Foreign corporations and stock exchanges could find themselves major beneficiaries of the idle Taiwanese funds. The Government has already begun encouraging such investments, and major banks and fund managers have begun putting in place the mechanisms for currency transfers.

Parliament's finance and economics committees late last week sent their revision of the strict, decades-old law controlling foreign exchange to the house floor, where it will be discussed and most likely be approved soon.

The revision allows the lifting of controls at times when Taiwan enjoys huge trade surpluses, holds excessive foreign reserves, or the international economic picture changes radically.

MPs also inserted a clause into the proposal by the executive branch, which would *require Parliament's approval* before controls may be re-imposed.

The revision, however, will not affect recent curbs by the central bank on inward remittances, which were designed to stem the inflow of so-called "hot money" that seeks to capitalise on the continuing appreciation of the Taiwan dollar.

Border blockade called off

BY DAVID WHITE IN MADRID

A MASS blockade by Spanish truck drivers which had caused a pile-up of tourist traffic trying to cross from France via the main border in the eastern Pyrenees region was lifted at the weekend.

Some 700 vehicles cut off the border in protest against incidents on Thursday when protesting French farmers set fire to 12 truckloads of Spanish fruit and vegetables.

The frontier was reopened to traffic after an agreement between local authorities on both sides. Spanish transporters are to receive compensation within 60 days. They have also been promised protection on the French side of the border, including police escorts on stretches of motorway in south-west France.

World Economic Indicators

TRADE STATISTICS

		Apr '87	Mar '87	Feb '87	Apr '86
UK £bn	Exports	6.572	6.429	6.973	6.040
	Imports	7.076	6.846	7.174	6.303
	Balance	−0.504	−0.417	−0.201	−0.225
Japan $bn	Exports	19.500	19.335	17.242	17.758
	Imports	11.935	11.235	10.107	10.907
	Balance	+7.565	+8.100	+7.135	+6.850
		Mar '87	Feb '87	Jan '87	Mar '86
US $bn	Exports	21.064	18.660	16.421	18.557
	Imports	34.694	32.725	28.692	30.735
	Balance	−13.630	−15.065	−12.271	−12.198
W. Germany DM bn	Exports	42.73	43.65	40.77	44.21
	Imports	33.90	32.44	31.90	35.66
	Balance	+8.83	+11.21	+8.87	+8.55
France FFr bn	Exports	70.53	73.82	67.73	70.53
	Imports	73.81	74.26	70.18	71.41
	Balance	−3.28	−0.44	−2.45	−0.88

US drug companies act against Brazil

By Nancy Dunne in Washington

THE US Pharmaceutical manufacturers' association has filed a petition with the US Trade Representative requesting presidential action against Brazil for its failure to protect pharmaceutical patents.

This petition is the first trade complaint originated by any US industry under 1984 amendments to the Trade Act for the lack of intellectual property protection.

The association moved only after months of negotiations failed to produce a solution. In announcing the action, it said that Mr Marcilio Moreira, Brazil's ambassador to the US, told the association's negotiators on June 8 that his Government was unwilling to seek protection for pharmaceutical patents.

Brazil law has denied protection to pharmaceuticals since 1969. The association said that American companies have spent millions of dollars in research, development and start-up costs, which they are prevented from recouping.

The industry is one of the few in the US to have maintained a positive trade balance. Mr Gerald Mossinghoff, the association's president, said that positive balance had been "severely jeopardised by the absolute refusal of some countries to grant patent protection to our member companies' products." Brazil, he said, is "the most egregious example of an anti-intellectual - property - rights posture."

Under the 301 petitions filed, the US Trade representative has 45 days to determine whether to accept it and initiate an investigation. In the end, he can initiate consultations or recommend action to the President, who may decide to adopt a wide variety of reprisals.

Iran-Soviet links

Efforts to expand economic and industrial co-operation between Iran and the Soviet Union have been discussed in Tehran between ministers of the two countries, according to the Iranian news agency, Reuter reports. They expressed the hope that co-operation could be increased through the work of a joint economic commission.

Kevin Brown on how outdated regulations are shackling a growth industry

Express mail outpaces customs services

THE express mail industry poses a serious problem for *the world's* Customs *administrations*—how to cope with a business which is rapidly outgrowing regulations which were largely designed before it was invented.

The International Express Carriers Conference, which represents the major companies, estimates that the industry has grown from around 5m packages in 1980 to some 40m this year. This will produce gross revenue of around $4bn, on top of revenues in the various domestic markets of around $12bn, of which some $8bn is in the US.

Customs administrations have responded to this dramatic growth in a number of ways, such as rapid baggage clearance for courier traffic at London Heathrow, and simpler procedures for low value shipments to the US. Some Customs administrations have also assigned inspectors to the "hub" networks developed by express airline operators in Europe and the US.

In addition, express parcels sent by national post office organisations are treated as mail, which considerably reduces transit times. The express companies describe these initiatives as "piecemeal innovations," however, and point out that there has so far been no international harmonisation—so that the rules vary from one country to another.

The special treatment for post offices is also said to put commercial companies at a *competitive disadvantage*, leading to claims of discrimination by services which are supposed to be neutral. These criticisms have been given valuable support by a confidential survey carried out by Peat Marwick McLintock, the accountancy firm.

Peat Marwick's report provides evidence that the minor changes implemented by customs services are insufficient in two ways.

- Express consignments are being held up by slow handling, which hampers the growth of a major new industry by reducing its efficiency.
- Governments are losing revenue because customs services are too hard pressed to assess properly the increasingly heavy flow of packages.

Peat Marwick shipped hundreds of packages valued at between $22.45 and $225 in the ten months from May last year to February.

There was a huge variation in the performance of customs services in assessing duty and value added tax payable; the overall performance, however, was clearly very poor.

European Community customs services collected duty in only 33 of 98 cases in which it was due, and in only 11 cases was the payment within 25 per cent of what was legally due.

The US customs service collected duty in only two of 91 cases, and only one of these was within 25 per cent of the legal amount due.

With value added tax, European Community customs officials managed to collect it on only 36 of 157 cases.

The IECC executive committee told its annual conference in Montreal: "The Peat Marwick study has provided dramatic support for our case. It seems not even customs officials themselves can administer their customs laws with respect to express consignments."

> The industry is reckoned to have grown from 5m packages in 1980 to some 40m this year. This will produce gross revenue of around $4bn on top of revenues in the various domestic markets of some $12bn.

Ironically, the IECC had earlier reached a measure of agreement on changes to customs procedures with officials of the Customs Co-operation Council, the United Nations agency which represents 98 of the world's customs administrations.

The secretariat of the Council, which is based in Brussels, is believed to have been broadly in sympathy with proposals produced by the IECC in a document known in the industry as the Blue Book.

In essence, the Blue Book argues that air courier, express air cargo and postal express services should be treated as a single new customs category, *rather than* as fast-transit sectors of other categories.

It calls for reforms to speed up customs clearance, without interfering with checks for contraband and illegal drugs. The Blue Book says this could be achieved by:

- Eliminating duty on low value shipments where the cost of collection exceeds the potential revenue.
- Introduction of a standard rate for shipments of slightly higher value.
- Abolition of customs forms where information is contained in company manifests.
- Electronic transfer of information in advance of the arrival of consignments.
- Harmonisation of national systems to allow consignments destined for more than one country to be sorted only once.

The broad thrust of these proposals was endorsed in a draft study prepared by the Council secretariat following an initiative by the US customs service. The proposals were curtailed, however, by a committee of experts, reflecting the reluctance of customs officials in some countries to accept the need for changes in established procedures.

One Council official said: "We are trying to find a way of changing customs legislation the world over so that it catches up wth the requirements of the express industry. The problem is that the majority of countries feel at the moment that there should be no substantial change.

"This is really because they do not yet understand the full extent of the problem, and how fast this kind of traffic is growing."

Another said: "What is happening is a process of evolution, which cannot be hurried through faster than individual customs services are prepared to accept."

The Council is likely to compromise in Ottawa next week on a memorandum of understanding wth the express companies, combined with a one-year trial of guidelines encouraging harmonisation and greater use of electronic information transfers.

This will reduce tensions with the carriers in the short term, but is unlikely to be sufficient n the long term to satisfy an industry whose reason d'être is destroyed by customs delays.

The problems of the express carriers are a subject to which the Customs Co-operation Council is likely to have to return, whatever the outcome of the vote in Ottawa.

SHIPPING REPORT

Recovery forecast in tankers

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

RATES for very large crude carriers (VLCCs) stabilised last week, while, in the dry cargo market, interest centred on renewed Soviet chartering.

Galbraith's, the London brokers, said the level of tanker business seemed likely to pick up in the second half of the month. Fixtures were said to be in the process of being concluded for a London-based oil major, Japanese principals, and other big traders.

Meanwhile, a number of fixtures were concluded for cargoes *of 250,000 tons from* Hormuz for discharge in the Red Sea area at Worldscale 40, the Far East at Worldscale 37.5, and the West at Worldscale 35.

Demand for smaller tankers was said to be less than prolific. A cargo of 118,000 tons was taken up on a part-cargo basis by a 157,000 tons vessel from the Gulf to the Mediterranean at Worldscale 65, however, and a ship of 97,000 tons was fixed at Worldscale 85 for a part cargo of 70,000 tons to Singapore.

Brokers reported relative stability in other sectors of the market, and West Africa was said to be developing as an outlet for ships of around *100,000 to 120,000 tons.* Rates from Nigeria were said to be holding up reasonably well, and around Worldscale 65 was paid for a cargo of 100,000 tons to the US Gulf.

In the dry cargo market owners were said to have experienced some success in blunting the renewed efforts of charterers to push rates lower.

Denholm Coates, the London brokers, said Soviet chartering had been "judicious." Time charter rates fell to around $6,000 for Panamax ships (the largest able to transit the Panama Canal) and $3,800-$4,000 for the smaller "handy-size" ships, but owners were said to be relatively happy with these levels.

A *fixture of around* $14.50 *per* ton was rumoured for the key US Gulf to Japan grain rate, which has been falling recently, but the lowest confirmed level remains $15.

Europe urged to boost sale of lead-free petrol

BY DIANA SMITH IN LISBON

THE COUNCIL of Europe's 21 environment ministers have called on governments to speed up the availability of lead-free petrol in order to decrease the negative effects of road traffic on the economy and ecology.

Meeting in Lisbon the decided to draw up a strategy to increase environmental protection and boost declining rural sectors, focusing on prevention rather than cure. They insisted that the principle of the "polluter pays" should extend to all forms of environmental *damage*.

They called for international co-operation on the environment, stressing that each country must assess all the implications for other countries of projects with possible environmental consequences.

Rural areas also needed economic and technical assistance to study the environmental impact of major development projects, and deprived areas should be given help to finance public transport, schools, medical services, and other facilities.

Detailed guidelines for policy-makers should be drawn up, the ministers said, with particular reference to the protection of national heritage, agriculture and forestry. There should also be policies for research, tourism, energy, transport and housing, ensuring that people could have a decent lifestyle in the countryside and want to continue living there.

UK NEWS

Tories aim at reviving inner-city fortunes

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE GOVERNMENT'S new policy drive to regenerate the inner-cities is to be run in parallel with an intensive, Conservative Party campaign to re-establish its political power base in the same areas.

Despite the Government's overwhelming general election victory, there is considerable concern within the Tory Party hierarchy at its bad showing in several major cities. In the new parliament, there are no Tory MPs representing constituencies in central Glasgow, Newcastle, Liverpool, Mancester or Leicester.

The revival of Tory fortunes within inner-city local government has been identified as a crucial step in rebuilding the party's parliamentary representation in many city constituencies and in curbing the activities of left-wing councils.

Mr Norman Tebbit, the party chairman, yesterday gave a warning that, apart from London, the Tories were in danger of being completely ousted from Britain's great cities, where their credibility was low. The intention, he added, was to reorganise in order "to offer a proper, democratic alternative of competent local government in these cities, instead of incompetent or downright unhelpful local government."

Norman Tebbit: 'need to offer democratic alternative'

Mr Tebbit claimed that, nationally, the Tory election campaign had gone according to plan although not without "our share of little mishaps." He disclosed that, at the meeting before the election was announced, Mrs Thatcher's decision to go to the country had been helped by a computer projection of a 96-seat majority. His own guess had been "somewhere in the 70s."

He admitted, however, that on "black Thursday" in the week before polling, when the Government's health service record came under fierce attack and a Gallup poll showed the Tory lead down to 4 per cent, everyone had become "a bit tetchy."

But he defended the performance of Saatchi & Saatchi, the party's advertising agency, and alleged that at US agency – which he did not name – had attempted to take over by exploiting reported problems with the campaign. He said it was "not a matter of turning Central Office upside down and saying they *did badly*" but of concentrating on reorganising the inner-city party machinery.

The Tories had to be re-established as a credible force in the inner-cities, able to fight and win elections. The alternative to restoring political balance, he added, was to see many cities left in the hands of Labour authorities who had a vested interest in prolonging decay and dereliction, rather than in attempting to overcome them.

Mr Tebbit plans to bring together senior Tories, including voluntary workers and former party chairmen, to devise a revival strategy, initially aimed at boosting falling membership. The intention is to improve key staff, review systems for training local government candidates and to boost finances.

Election aftermath, Page 10

Williams buys Reed paints unit

BY NIKKI TAIT

WILLIAMS Holdings, the acquisitive industrial holding group which narrowly lost a £570m bid battle for Norcros in April, is expected to announce today the purchase of Reed International's paint and do-it-yourself operations for a price in excess of £250m.

Reed put the division – which is best-known for its Crown paints and Polycell DIY lines – up for sale a month ago. At the time, the group said the divestment was in line with its policy of concentrating on the development of its publishing, paper and packaging interests.

Since then, offers for the paint and DIY business are believed to have come from a number of outside parties as well as from an internal management buyout team, which is reported to have expressed an interest as early as January. One mooted purchaser, the fast-growing wallpaper and home furnishings group Coloroll, finally ruled itself out last Friday.

Williams' offer is thought to have been the most generous, easily exceeding initial City of London estimates of up to £175m for the sale price. The paint and DIY division employs 5,000 people, and in the year to end-March 1987 made a trading profit of £22.5m (£18.9m in the previous year) on sales of £308m (£288m).

Williams is thought to see the acquisition as a means of extending its consumer-related interests – one of the reasons it bid for Norcros – and of enhancing its North American exposure. In 1986 Williams drew only £16m worth of turnover – out of a total £206m – from the US.

The Reed businesses are strong in the western states, taking in the Frazee Industries and Parker Paint companies, bought in 1984 and 1982 respectively, and also include General Paint of Vancouver, Canada, which was acquired in the 1960s. Over the last financial year, Reed said the division showed "notable growth" in North America.

Ironically, Williams' former target Nororos also considered going for the Reed paint operation but says it decided against it on the grounds that paints would remain "a commodity sector" where ICI has a dominating role.

The purchase will be Williams' biggest acquisition to date. The company has been transformed from a small South Wales-based metals group, with a market capitalisation of under £500,000 six years ago, to a conglomerate by Mr Nigel Rudd, its chairman, and Mr Brian McGowan, managing director. Its interests now range from Rawlplug building products and Swish curtain tracks to specialist engineering

On the way, purchases have included Fairey Engineering, Duport and London and Midland Industrials. Williams' current market capitalisation is over £350m.

Survival in balance at News on Sunday

BY RAYMOND SNODDY

SURVIVAL of the News on Sunday newspaper, which was launched only eight weeks ago, could hinge on it finding a substantial new shareholder in the next few days.

Mr Owen Oyston, the Labour-voting millionaire who has been working on a rescue package, is being blocked by the Founders Trust. The trust was set up to protect the ideological purity of the paper and to prevent anyone holding more than 15 per cent.

The Trust has not so far complied with an Oyston request to transfer a "golden share" which controls the paper. Trust secretary Mr John Bohanna, a Ford shop steward said yesterday, however, that they were prepared to negotiate with Mr Oyston from today.

Without the effective control of the "golden share" Mr Oyston will not be willing to put up the money to save the paper which is losing more than £130,000 a week.

News on Sunday was launched as a bright tabloid newspaper for serious readers of the left. Yesterday Mr Nicholas Horsley, Chairman, said without a long-term financial commitment to put before the board tomorrow "we will have to fold the paper by the middle of the week."

Investment of £7m, most of it by local authority pension funds and trade unions, is almost gone. Apart from new long-term finance an immediate £500,000 is needed to keep the paper coming out. The paper is selling 230,000 copies an issue.

Now the general election is over it is uncertain to what extent the Transport and General Workers Union, the largest shareholder, can continue to put in money.

Some of the paper's managers argue that, even if Mr Oyston who has put a total of £500,000 into the project is prepared to back it futher, he is the wrong man to run the paper and that the only hope now is to find a new backer.

Mr Roy Barber, the newspaper's chief executive, has, it is believed, put together a £3m business plan which would keep the paper going and prepare it for a £2m relaunch in September, leading to eventual viability.

Under the plan, losses per issue would be cut to £50,000 by September for a circulation of 250,000 with a staff of 100, including 25 journalists compared with the present 180.

Heath loses top brokers

By Nick Bunker

C. E. HEATH, Britain's sixth biggest quoted insurance broker, has lost five top re-insurance broking executives who are leaving to join Bain Clarkson, a rival Lloyd's broker.

The defections are likely to be seen as a significant blow to Heath, which six months ago was hit by a mass walk-out of 28 senior staff who had been recruited by Citicorp Insurance Brokers.

Mr Simon Arnold, chairman of Bain Clarkson, confirmed last night that he had signed up the five people from Heath. He declined to name them but said that they formed a team specialising in broking London market non-marine excess-of-loss (LMX) treaties, a type of re-insurance business.

Moves for reform in losing parties

By Our Political Correspondent

PRESSURE for early constitutional *reforms* aimed at improving future electoral prospects is mounting within the leadership of the Labour Party and the SDP-Liberal Alliance.

Moves within the Alliance aimed at seeking approval for a full-scale merger are to begin at once. Mr David Steel, the Liberal leader, said yesterday that he wanted to see a "democratic fussion" of the two parties, with the leadership issues – together with his own position – being resolved later.

Labour is also determined to press on with changes aimed at democratising the party and isolating the influence of the extremists who, it believes, must bear much of the responsibility for the party's general election failure.

Mr Roy Hattersley, Labour's deputy leader, yesterday dismissed the possibility of any kind of "anti-Thatcher" deal with the Alliance and said that the implementation of one-member-one-vote for the selection and reselection of parliamentary candidates was now "absolutely essential."

A Labour Party working committee on the selection process is due to report soon, and there will be pressure to consult and prepare recommendations on any constitutional changes in time for the annual conference in September. Labour MP's have to face reselection within 18 months to three years of the election.

There will also be early moves within the Labour leadership to rethink both policies and the policy-making machinery, in order to present Labour as more forward-looking and to inject more originality to its electoral appeal.

Mr Ken Livingstone, the newly elected Labour MP for Brent East (London), yesterday attacked the "one-member-one-vote proposal, claiming that it was "anti-left" and said Mr Kinnock, who was a good Socialist, had nevertheless tried to sanitise the Labour Party. He claimed the only way to reach those who had not voted Labour was the presentation of "more radical, modern and progressive" policies.

Several leading figures within the Liberal and Social Democratic parties yesterday pledged their support for a merger. Mr David Alton, the Liberal chief whip in the last House of Commons, said the Alliance had suffered by having two leaders and two sets of policies.

The case for a merger was also supported by Mr Alan Beith, the Liberal deputy leader, and Mr Des Wilson, the Liberal president, who said anyone believing the existing relationship was any longer workable was "bordering on insanity."

Mr Steel has called a meeting of Liberal Party officers for tomorrow at which he will present a memorandum, to be sent to Dr Owen, the SDP leader, which sets out options for constitutional changes. The new parliamentary Liberal Party will discuss the document at its first meeting on Wednesday, with the intention of presenting proposals to the autumn conference.

The SDP national committee meets today and will consider its reaction to the merger calls, the negotiations for which are unlikely to prove easy, given Dr Owen's long-standing opposition to the idea.

UK NEWS

Sky's the limit for balloon industry

Andrew Lynch reports on British companies which are leading the world in balloon-making and finding an increasing demand for their products

THERE WILL be more than sporting honour at stake when two British teams battle to make the first Atlantic crossing by hot air balloon this week, weather permitting.

For two of the pilots, Mr Per Lindstrand, in the Virgin Atlantic Flyer with Mr Richard Branson, head of the Virgin Group, and Mr Don Cameron in the Zanussi balloon with Major Jim Howard, run balloon-making companies in the UK which lead the world in both quantity and quality of production.

Mr Cameron, a 47-year-old Scot, whose Cameron Balloons is based in Bristol with a US licensee in Ann Arbor, Michigan, was the first serious UK balloon maker. He had a background in aero and industrial engineering, worked for the former British Aircraft Corporation and then joined Rio Tinto-Zinc, dealing with computers and financial analysis.

His passion for ballooning was sparked off by an article in the National Geographical magazine, after gliding and flying experience. He started making balloons in his basement in the evenings and set up his company in 1970. It produced 12 balloons in its first year, and the UK output grew to more than 200 last year, with a £2m turnover.

Cameron Balloons at Bristol, in the west of England, employs more than 50 staff. The company has built its reputation on a series of stunning special shapes, notably those for Mr Malcolm Forbes, the idiosyncratic US publisher, which include a replica of the Forbes chateau, a giant Harley-Davidson motorcycle and a bust of Beethoven.

Rivalry is intense between Cameron Balloons and Thunder & Colt, headed by Mr Lindstrand and based in Oswestry, on the Welsh borders, where it produces more than 250 balloons a year. Mr Cameron gives the impression that he cannot bear to speak his rival's name. Mr Lindstrand, 38, born in Sweden but now a UK citizen, says: "It's a fight to the last drop of blood."

This has its benefits. "The competitive atmosphere has created two highly efficient units," says Mr Lindstrand. "It has made us technically competent – our equipment is far superior to that of the Americans and we are dominating the world in balloontechnology."

Thunder & Colt, the result of the 1983 merger of Thunder Ball Balloons and Mr Lindstrand's company, Colt, employs about 70 workers producing hot air balloons and airships with an annual turnover of £3m. A sister company, Airborne Industries, based in Essex, east of London, mainly working on defence products, was purchased in 1984.

Mr Lindstrand traces the resurgence in the popularity of ballooning to Pentagon research in the 1960s into recovering pilots shot down over enemy territory. That idea was a flop – unsurprisingly as few pilots were keen to present themselves as sitting targets to the enemy – but ballooning took off as a sport in the US. One company, Raven, led the way and remains the largest US manufacturer.

Both UK companies have benefited from their locations. Cameron Balloons from the proximity of aerospace factories at Bristol and Mr Lindstrand from the opportunity to recruit apprentices laid off by British Aerospace at Chester.

An aero engineer, Mr Lindstrand became an expert in gun sights but was disillusioned at playing a limited part in the design and construction process. "I went to England for the simple reason that Sweden is a high-cost country. The industrial scene there is well suited to the manufacture of machine tools and vehicles. England is a craft country, where you will find the skills like basket-weaving and leather work."

He cites two factors as essential to the UK industry's growth: the strength of the advertising industry and acceptance from the Civil Aviation Authority (CAA). "You need a civil aviation authority that will respond. We have sold balloons in 37 different countries and not one civil aviation authority comes near the British one.

Each balloon has to be certified for airworthiness by the CAA, and its records show the renaissance in ballooning. In October 1977 there were 154 certified hot air balloons, compared with 533 in May of this year.

There are four ways to run balloons, says Mr Phil Dunnington, marketing director of Cameron Balloons. "There is the person who has his own company and thinks having a balloon is a useful way of promoting a company locally, while having a bit of fun.

"He tends to go for the relatively cheap sporting types of balloon with a banner or a simple logo." (A sporting balloon can range from £5,000 to £10,000 while a special shape can rise to £40,000 or more.) Secondly, a company which buys a balloon and does not want to operate it can let a local balloon syndicate use it.

Then there are professional pilots who contract their services – about 40 of them in the UK. Finally, companies such as the Hot Air Balloon Company (Habco), of west London, provide packages including public relations, maintenance, crews and support vehicles.

The market does not appear to be near saturation. "We sell every balloon we can build," says Mr Dunnington. "There will be a plateau but not in the immediate future. Overseas markets offer the best opportunities. "America is our growth market," says Mr Lindstrand. "So far this year we have taken 38 orders from America."

Both transatlantic balloons will make use of solar heat. Mr Cameron's black Zanussi balloon aims to draw on it; the Virgin Atlantic Flyer will work on the "greenhouse principle" with the sun's rays entering through the transparent outer fabric and being trapped between the main inner envelope and an outer one, which will act as one-way glass holding in the heat.

Doubts over moves to full EMS membership

BY ALAN PIKE

UNCERTAINTY over whether the Government will now commit the UK to full membership of the European Monetary System is expressed today in a post general election commentary by Warburg Securities.

The widespread presumption that the re-elected Conservative Government would take the long-awaited plunge into full EMS membership "*may well prove to be fiction*," it said.

Mrs Margaret Thatcher's objections to EMS entry might well be reduced after the election, but this did not mean that they had been wholly dispelled.

But even if the timing for EMS entry were still not judged to be right, Mr Nigel Lawson, chancellor of the Exchequer, would wish to continue shadowing the EMS in the hope that he could eventually convince the Prime Minister that her objections were misplaced and that the UK should go in.

Goldman Sachs economic research group, which on previous occasions had assumed that a UK application for EMS membership would follow the election, also sounded a note of caution. It said it was not certain that Mrs Thatcher's opposition – apparently based on fears of losing UK economic sovereignty and subjugation of British monetary policy to the West German Bundesbank – could be overcome.

UK NEWS

Syndicate losses may be wrongly estimated

BY NICK BUNKER

THERE could be a £100m margin for error in estimates that the troubled PCW syndicates at Lloyd's, the London insurance market, face gross underwriting losses at £680m over the next 20 years.

The PCW 1985 Committee, which speaks for about 400 members of the syndicates, has learnt that Lloyd's believes the losses could actually turn out to be 10 per cent to 15 per cent more or less than £680m.

This is because there is room for considerable disagreement about the assumptions and techniques Lloyd's used when it calculated the figure as part of its attempt to settle the PCW affair this spring.

As part of the settlement, Lloyd's has asked a core group of 450 members of the worst-hit PCW syndicates to contribute £34m to help meet the losses. If they agree to do so, they will be freed from any further responsibility for the syndicates' liabilities.

Lloyd's has set a deadline of Friday, June 19, for PCW members to accept the offer.

The PCW 1985 Committee gave details of the uncertainties surrounding the £680m figure in a letter sent on Friday to the members whom it represents. It said that during a meeting last week with Additional Underwriting Agencies Number Three (AUA3) – the company currently managing the syndicates – it obtained a summary of the calculations Lloyd's used.

This included a statement that the £680 figure was subject to a "tolerance factor" of 10 per cent to 15 per cent. The committee said that both Lloyd's and AUA3 had now flatly refused to renegotiate the terms of the settlement offer and reduce the £34m contribution.

The committee has been trying to persuade Lloyd's to ask for a lower figure, on the grounds that the fall in the US dollar against sterling has benefited the PWC syndicates, because most of their insurance losses come from payments of claims arising in the US.

It is also arguing that, if the losses eventually turn out to be less than £680m, there ought to be some provision for the PCW members to receive a refund of part of their contribution to the settlement.

The committee has persistently argued that the huge losses arose as a direct consequence of an elaborate fraud masterminded by Mr Peter Cameron-Webb, a disgraced Lloyd's underwriter.

Equipment faults delay BT service

BY DAVID THOMAS

BRITISH TELECOM (BT) has had to delay a key part of its plans to improve its services in the City of London because of faulty equipment delivered by STC, the UK electronics group.

The delay will damage BT in its effort to fight the challenge by Mercury Communications, BT's sole network rival, in the City which has seen the most intense competition between BT and Mercury.

BT has been planning to introduce a new service, known as Fast, which would allow City customers to be directly connected to a new fibre optic network. Mercury already offers this to City customers.

Through its Fast network, BT would be able to offer City customers better quality services and would probably also cut prices to businesses using the Fast network.

BT has now had to delay signing up its Fast customers. It had been planning to do so in April.

The problem concerns Multiplex equipment which manages the transmissions going out over a telephone line.

London tops flat rental costs in Europe

By Hazel Duffy

LONDON EMERGES from the Confederation of British Industry's (CBI) latest survey of living costs in Western Europe as the most expensive in which to rent a flat.

The rental on a three-bedroom, one-living-room, flat in central London is put at £1,400 to £1,700 a month. This compares with about £690 in Cologne, and a mere £216 in Lisbon.

House prices, however, do not show the same variation between outer London and similar houses outside Paris and Cologne, where between £100,000 and £150,000 for a three-bedroomed house is given.

Clothes tend to be cheaper in London. A two-piece, off-the-peg lounge suit of good quality would cost £150-£200 compared with £233 in Milan and £222 in Zurich.

Salaries also differ substantially in Europe. A sales manager in the UK can expect to be paid between £1,300 and £1,400 gross a month, second-lowest only to Portugal where the rate given is only £706 a month. In Sweden such managers can expect to receive £2,124 and in Austria £3,103.

Income tax will make differing inroads on that salary. In Sweden the effective rate on £20,000 a year, assuming a wife who is not working and one child, is 46 per cent, in the UK 50 per cent and in Austria 39 per cent.

The CBI stresses that the information is intended only as a guide to likely living costs for companies intending to set up industrial or sales operations in particular countries, and not as a study of comparative costs.

a quick glance at costs, however, suggests that most countries offer compensations in some form or another. The Irish manager, for instance, may have to pay nearly £19,000 for his BMW 520, but he can get into a Dublin golf club for between £400-£600, with an annual subscription of £160-£324. In Zurich the comparable fees for a golfer are £8,000 membership fee and £400 annual subscription.

The cost of renting office space shows sharp differences. The City of London, not surprisingly, is more expensive than any other European city at annual rent of between £240-£353 a square metre. Paris follows a close second at £236 a square metre whereas Brussels accommodation can be rented for as little as £59 a square metre.

West European Living Costs. CBI, 103 New Oxford Street, London WC1A 1DU. £22 to members, £30 non-members.

Overtime ban disrupts banks

By David Brindle

AN OVERTIME ban in Lloyds, Barclays and National Westminster banks has disrupted routine administration and delayed the clearing of payments by up to a day, according to the Banking, Insurance and Finance Union (Bifu).

Bifu's 50,000 members in the three banks voted to ban overtime since last Monday. Members of the in-house staff unions at Lloyds and Barclays – but not NatWest – are taking similar action over the imposed 5 per cent pay settlement, said by the employers to be worth up to 7.5 per cent for some grades.

The union says that the effect of the action demonstrates widespread anger over the pay rise and that the banks should return to the negotiating table.

In Barclays, the union maintains, many branches were unable to open late as usual last Thursday; managers at data processing centres are having to work weekends to make up for lost overtime working by their staff; and processing of Barclaycard and Connect card transactions has been delayed.

In Lloyds, Bifu says, branches throughout the country are displaying signs informing customers that delays can be expected; payment clearings are being held back until the following day; and work on account debits is being given priority over credits.

At NatWest, the union claims, routine administration work such as the issuing of statements and closing of accounts is suffering as staff concentrate on clearings.

Bifu says it has received more than 1,000 membership applications in a week – many from members of the NatWest staff association which did not achieve the 75 per cent majority vote required by its rules for industrial action.

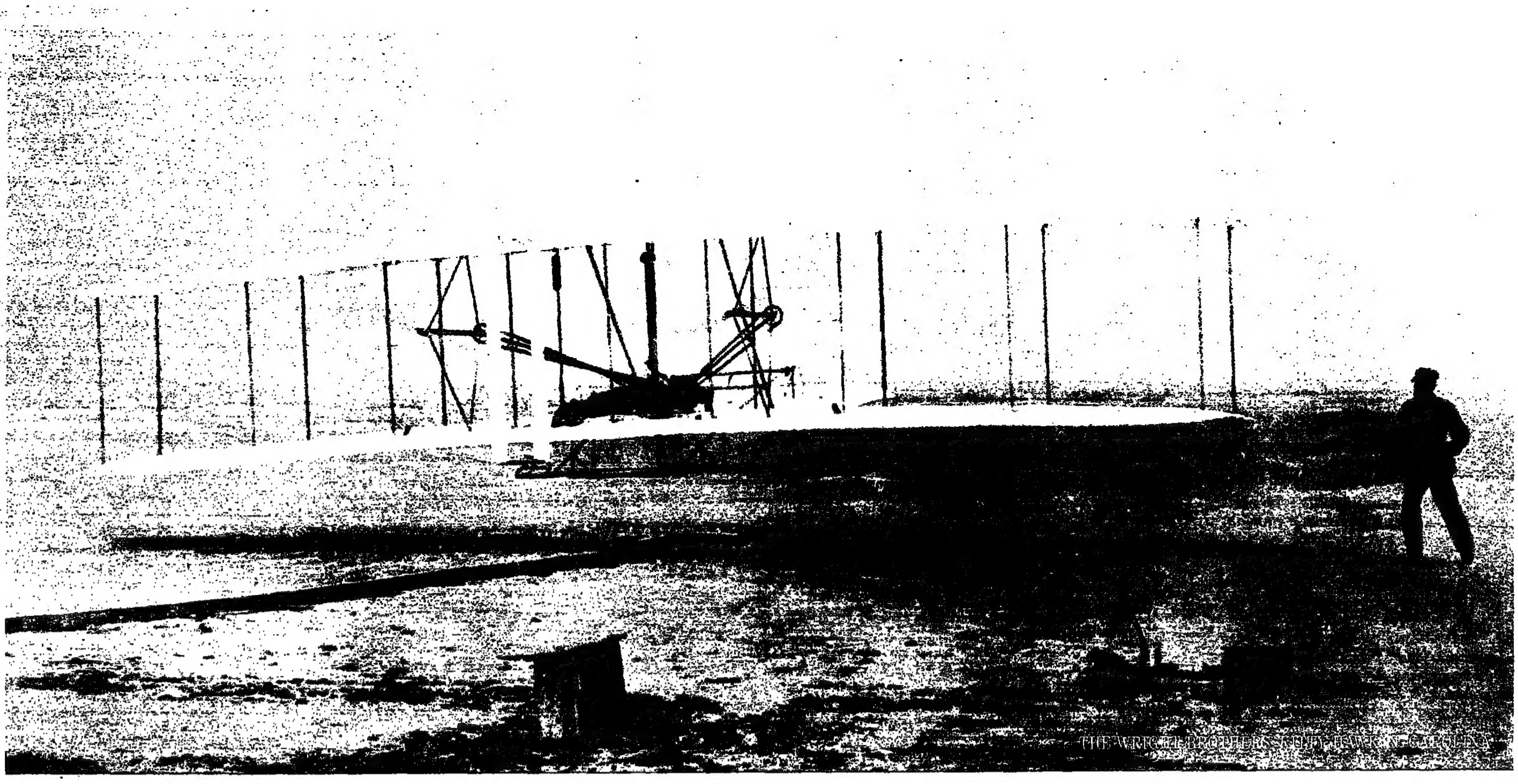
Air union move on share votes

By Our Labour Staff

UNIONS REPRESENTING British Airways employees aim to break fresh ground in two weeks' time by wielding a block vote of their members' shareholdings at the airline's first annual meeting in London.

Mr Mark Young, general secretary of Balpa, the pilots' union, said yesterday it was not yet clear how large the block vote would be. Employees were allocated 8.6 per cent of BA shares in last year's privatisation, and the unions were hoping that at least a quarter of the staff would sign over their voting rights.

The unprecedented initiative may be repeated by unions in respect of forthcoming privatisations such as that of the British Airports Authority. The labour movement now recognises that it cannot block sell-offs but it can influence privatised companies through their worker's shareholdings.



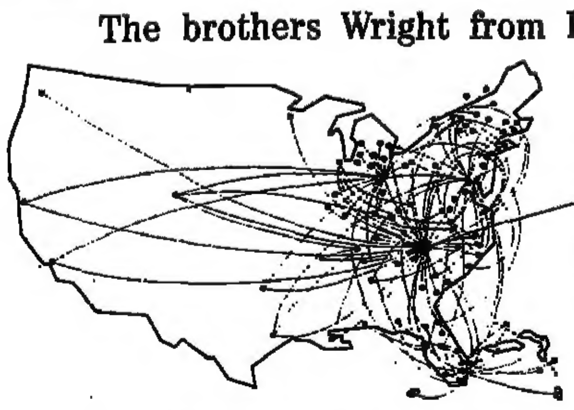
Tomorrow, Piedmont brings you another inaugural flight from North Carolina.

The omens were less than auspicious. A previous attempt, two days earlier, had ended with the world's first twin-ruddered flying machine nose down in the sand.

Overnight, the stiff Atlantic North Easterly they'd waited for had arrived alright, but it was gusting, unpredictable.

And there, peering through the pale morning sunlight with one beady eye, was a sight to put the wind up the most intrepid aviator: Kill Devil Hill.

The brothers Wright from Dayton, Ohio must have wished, over their hash browns, that they'd stayed at home.



Instead, by 10.35am that December morning in 1903, having braved sheets of ice and the waves of indifference their endeavour had engendered, the deed was done.

Orville Wright had flown the chain driven, 12 horse power, Flyer 1 for 12 seconds at an altitude of 12 feet and an air-speed of 30mph.

The village of Kitty Hawk, North Carolina was in the history books.

And Orville's elder brother, Wilbur, had turned to the rest of the audience present at this epoch-making event (four men and a schoolboy) and asked if any of them had the right time.

THE WRIGHT BROTHERS

Tomorrow, 84 years, a zillion horse power, 36,000 feet and 600mph later, North Carolina will again play host to a piece of aviation history.

Granted, it'll be in the "small step" category, not the "giant leap," but it'll be a first nevertheless.

In fact, it'll be a double first.

When Piedmont Flight PI161 takes off at 1200 hours from Gatwick, West Sussex for Charlotte, North Carolina, it'll be the first flight from the UK to America's final gateway.

And Piedmont, America's fastest growing major airline, will have gone transatlantic.

For the people at Piedmont, it will mark a further stage in their remarkable expansion programme.

(Made all the more remarkable by the cutting back, trimming down and well-publicised financial trouble to which other US carriers have been prone in recent years.)

But more importantly, for the people flying to Charlotte, it means, at long last, a civilised way into the States.

We've all spent hours in the queue for Immigration at JFK and other overcrowded, under-organised ports of entry.

We've all missed connecting flights while baggage, tempers and the whereabouts of the correct check-in desk have become hopelessly lost.

Well, at Charlotte, Piedmont promises that you'll clear Immigration, Baggage Reclaim, Customs and be ready for your *connecting flight inside an hour.*

And from this, its biggest hub, Piedmont can get you quietly, quickly and efficiently to 58 US destinations including America's 16 largest cities via 290 daily departures.

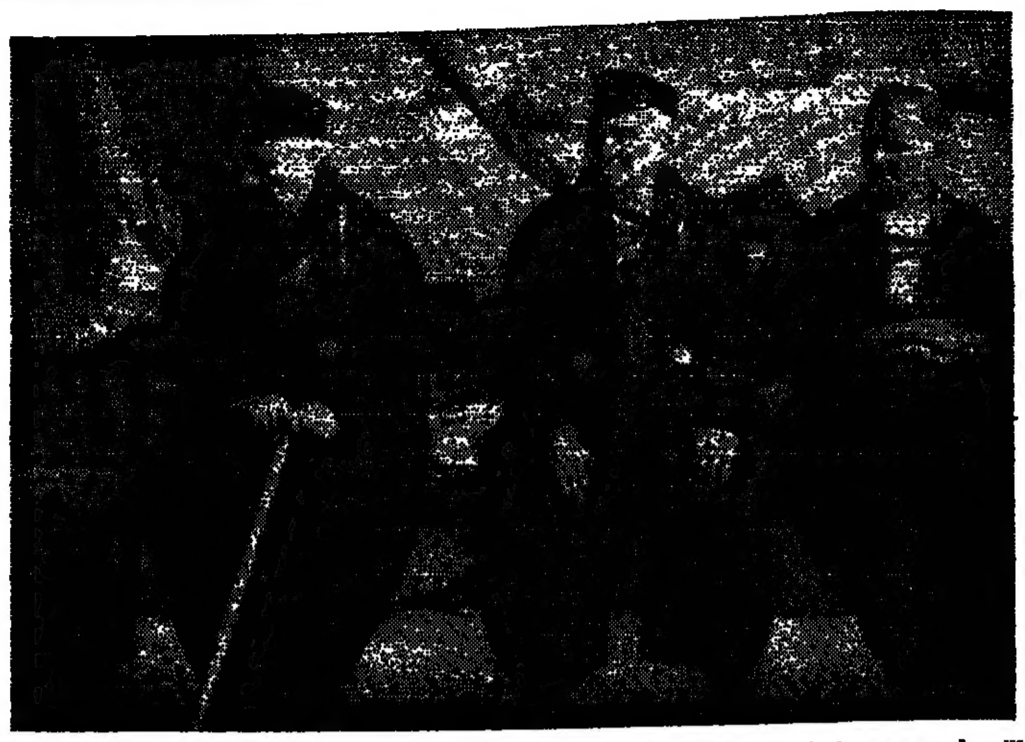
Registration plates in North Carolina bear the legend, "First in Flight." From tomorrow, it'll acquire a whole new meaning.

PIEDMONT

FOR FURTHER INFORMATION CONTACT: SALES OFFICE, PIEDMONT AIRLINES, PICCADILLY HOUSE, 33-37 REGENT STREET, LONDON SW1Y 4NB. TEL NO: 01-734 3001. RESERVATIONS: TEL NO: 0800-777-333, OR CALL YOUR TRAVEL AGENT.

Problems facing the Dutch welfare system as the population ages are examined by **Laura Raun**

The greying of the Netherlands



WHEN ABOUT 100 angry old people blocked tramlines in Amsterdam last month in protest against planned nursing home closures, it was a sign that the greying of the Netherlands population could no longer be ignored. The rapidly growing numbers of old people are compelling that country—and most others in the developed world—to make hard choices about how to care for the aged.

For the Dutch, the threat is that the country's lavish welfare system will be stretched beyond its limits and an already sluggish economy will be dragged down further by a population of more retirees and fewer workers. About one in five people is aged 55 or more and that figure will jump to one in three by the year 2035.

This "greying" trend is expected to cost the government around Fl 12bn (£3.6bn) in extra social security payments—particularly pensions, housing and health care by the end of the century, according to a civil service report. That amounts to about 3 per cent of today's gross domestic product. The complexity of the problem, its political sensitivity and emotional dimension, however, have stymied the centre-right government of Mr Ruud Lubbers, the Prime Minister, and left it struggling for solutions.

Other European countries, as well as Japan and the US, face similar threats to a greater or lesser extent. In West Germany the population is "greying" even faster than in the Netherlands.

The question of finances is paramount. In the Netherlands, Government old-age pensions account for nearly one-third of all social welfare benefits and that will climb to half by the year 2030. Medical and housing costs will also rise considerably.

Two demographic trends are fuelling the problem. One is the sharply falling birth rate, which means fewer working people to support the aged. The other is the fact that the elderly are living longer because of better health care.

For women, the problem is even more acute. By the turn of the century, women will represent 60 per cent of those 65 years and above, and 70 per cent of those over 80. About two-thirds will live alone.

STATE PENSIONS
(% of national income)

Year	Netherlands	W Germany	Japan
1984	12.2	13.8	12
2000	13.5	16.4	15.4
2010	15.2	19.1	18.3
2020	19.8	21.7	20

Source: Organisation for Economic Co-operation and Development

The sharp drop in the number of workers compared with retirees seriously threatens economic growth. Now there are nearly six potential workers for each pensioner in the Netherlands (although high unemployment and disability reduce the actual number of workers). By the year 2030 the ratio will drop to a potential 2.75 workers for each pensioner, according to demographic forecasts from the Organisation for Economic Co-operation and Development (OECD).

In West Germany the trend is even more pronounced with the ratio falling from about four to one now to around two to one in 45 years, according to the OECD. In Japan it is expected to shrink from seven to one to three to one, the OECD reckons.

Views on housing the elderly in the Netherlands have changed much over the years. In the 1960s the custom was to herd the aged into institutional homes located in quiet areas often in the southern provinces. As many as 11 per cent of senior citizens lived in these heavily subsidised retirement homes in the 1960s.

But over the years it became evident that old people disliked being uprooted. Moreover, the cost of institutional housing climbed faster than expected.

Now housing policy has shifted direction. Mr Lubbers' Christian Democrat-Liberal coalition Government has turned away from institutional care and moved towards individual care so that pensioners can continue to live at home as long as possible. In future this will mean relatively fewer retirement and nursing homes and more at-home services. But as the militant old folk in Amsterdam made clear not everyone is happy with the new policy.

At the moment about 90 per cent of senior citizens live at home and only 8½ per cent in communal retirement homes, a figure which the Government hopes to bring down to 7 per cent in coming years.

Mr Lubbers sees this substitution of informal care for professional services as part of a much broader shift to a "caring society" and away from the "caretaker state." The aim is two-fold: to cut costs and to foster the independence of the aged, in that order. A greater reliance on cheaper, informal care and less on dearer, professional services should save the government about Fl 1.4bn by the year 2000.

But scepticism abounds. Elderly Policy Under Fire, a recent study done by two sociologists under contract to the Ministry of Health, Education and Welfare, concluded that a "nostalgic and moralising view of a caring society hinders a realistic look at social developments with respect to family care and volunteer work."

More working women will mean fewer volunteers and outfitting homes with aids for the elderly will be costly.

Mr Johannes Regelink, the 74-year-old head of the Dutch Federation for the Aged adds: "Friends and neighbours already do all they can. But the elderly also need privacy. You can't ask a neighbour for help in every situation."

Government old-age pensions, to which everyone reaching the age of 65 is entitled, now absorb more than 12 per cent of national income and will surge to nearly 20 per cent by the year 2020, according to projections by the OECD. By comparison state pensions account for almost 14 per cent of national income in West Germany and will spurt to nearly 22 per cent by 2020, while in Japan the figure will triple to 20 per cent.

About 60 per cent of all retired Dutchmen live only on government pension benefits, which are a flat amount indexed to the legal minimum wage under a scheme established in 1957. Around 22 per cent of retirees also receive a private pension but that percentage is forecast to triple or quadruple in coming years along with the proliferation of corporate pension plans.

Senior citizens complain that their state pensions have fallen by 13 per cent over the past six years because the minimum wage has been frozen along with welfare benefits as part of austerity measures brought in under Mr Lubbers. But the overall financial position of the elderly has generally improved because of the expansion in private pensions.

"If you talk of independence you must have the income," insists Mr Regelink, who retired at the age of 64 and has chaired the federation for the past six years. "Maintenance of purchasing power is important."

In the US senior citizens have blossomed into a growth industry, enhanced by their rising disposable incomes and leisure time. Food companies purvey low-calorie delicacies at high prices, clothing makers offer fashionable chunky-heeled shoes for women and hair-care firms push stylish dyes and potions for balding men.

But in the Netherlands and most of Europe corporate marketing executives still tend to ignore the old.

Mr Eelco Brinkman, Minister of Health, Education and Welfare, is primarily responsible for the Government's policies for the aged. He told parliament recently: "We must distance ourselves from the thinking that the problems per definition can only be solved if they are paid for by the Government.

"If care for the elderly is collectively paid then a relatively small group of young people must pay more taxes and (social welfare) premiums."

APPOINTMENTS

Shipbuilding post

Mr William Scott, managing director of engineering operations at BRITISH SHIPBUILDERS, has been appointed managing director of the corporation's largest shipbuilding subsidiary, North East Shipbuilders. Dr Peter A. Milne, British Shipbuilders' board member for ship and engine-building, has relinquished the role of temporary executive chairman of NESL.

★

HERMES (GB) has appointed as managing director Mr Anthony J. Bottomley. He joins from Alfred Dunhill, where he was a director.

★

Mr John Alexander, Mr Rob Cattle, Mr Piers Inskip, Mr Peter Jermy, Mr Paul Oelmann and Mr Cyril Thornton have been appointed directors of SPENCER THORNTON AND CO, stockbroking division of the Fredericks Place Group. Mr Alexander, Mr Jermy and Mr Oelmann are on the private client side, while Mr Inskip becomes research director. Mr Rob Cattle is finance director of the parent company, Fredericks Place Holdings. Mr Thornton joined earlier this year from Britannia Portfolio Managers where he managed private client and institutional funds. He will perform a similar function at Spencer Thornton where he has been appointed managing director of Spencer Thornton Investment Management Services. Mr Brian Burfoot, Mr Bernard Kimm, Mr Richard Medlin and Mr Roy Stevens have been appointed associate directors of Spencer Thornton and Co.

★

At J. H. MINET & CO Mr Eric Doodes, Mr Raymond Tatchell and Mr Roy Turner have become senior administration directors.

★

Mr Guy Libby has been appointed deputy chairman of TELEVISION SOUTH. Mr Libby, who is also a director of Abingdon Management Company, a founder shareholder of TVS, replaces Mr David Quayle who recently resigned to join Granada's leisure and consumer services division.

★

Lord Stevens, chairman of United Newspapers, has joined the board of EXTEL after United's successful takeover bid. He was joined by three fellow directors of United, Sir Gordon Linacre, Mr Clifford Jakes, and Mr Graham Wilson.

★

Mr Mark Latham has joined PEPE as international business manager. He has been merchandise director of Fosters, buying director of Topshop and managing director of Fentons.

★

MINET INSURANCE BROKERS (UK) has appointed Mr Roger Durman, Mr Graham Hudson, Mr Daniel O'Brien and Mr Kenneth Rolls to the board.

★

KODAK has appointed two directors: Mr Geoff Brooks as director and manager, legal and corporate public relations, and Mr Tony Waterlow as director and manager, finance, administration and customer services division.

★

DIXONS COMMERCIAL PROPERTIES has appointed Mr Stephen Catchpole to the board from June 22. He joins from Stevenage Borough Council, where he had the distinction of being the youngest ever chief executive appointed in this country.

★

AT & T AND PHILIPS TELECOMMUNICATIONS (UK), the company combining the resources of the US and European leaders in telecommunications, has appointed Mr J. F. Boag as managing director. He will join the company in June and the appointment will take effect on September 1. In 1982 Mr Boag became chief executive of BT Trunk Services, and in 1986 chief executive of Telconsult and network investment overseas division.

★

Mr John Miller has been appointed financial controller of the property development division of WHITECROFT. He was formerly financial controller and company secretary at Salvesen Homes, a subsidiary of Christian Salvesen. Mr Stuart Carr has been appointed managing director of Giddings and Dacre, the Manchester-based builders merchants division. Mr Carr was formerly general manager.

INTL. COMPANIES & FINANCE

Richard Lambert on the man who has transformed American Can

Tsai shrugs off the Go-Go image

GERRY TSAI, at 58, has made it to the top of the pile. The man who 25 years ago was known as one of the wildest, and most successful, gun-slingers on Wall Street is today chairman of a leading US public company—one of the 30 shares in the Dow Jones Industrial Average.

Never a flamboyant figure, Mr Tsai is now a reserved almost retiring character, who places great emphasis on his prudential approach to business. "I'm getting older," he says, "I don't want to be that risky."

But he has shaken up his company almost as much as he revolutionised the fund management business in the old days, when he turned over his portfolio at what then seemed like an outrageous rate, and plunged into speculative shares like Polaroid, Litton Industries and Xerox.

'Any business that we have we will keep. And the day it doesn't meet our objective, we will sell it '

Under his influence — and latterly his direction—American Can has sold off its paper and packaging assets and freed up around $2bn for reinvestment in financial services and speciality retailing. Renamed Primerica (pronounced pri-MER-ica), the company is nearing completion of a $750m agreed bid for Smith Barney, an established US investment banking and securities firm.

Although the concept of the diversified financial services company has become somewhat tarnished in recent years, Mr Tsai cites American Express as a model of successful diversification. Smith Barney will broaden Primerica's financial business, which has been built around insurance, investment management and mortgage banking, and give the group its first important presence outside the US, notably in Tokyo.

The question is whether he is still acting as a portfolio manager—albeit on a much larger scale—or whether he has some grand strategy for the long term. Did he not, after all, state that the company's US packaging businesses were not for sale—only to respond enthusiastically to a bid approach late last year from Triangle Industries?

"That was a misquote," interrupts his Formidable Public Relations Person. But Mr Tsai is not committed to any particular shape for the group, and claims not to think about its structure in five years. "I can't see as far as you can," he says drily.

He is, however, clear about a specific goal. The mandatory retirement age at Primerica is 65—a point which he made twice during the course of the interview—and so time is limited. "Our goal is to double the company's earnings per share over the next five years," he says.

"Any business that we have we will keep—as long as it is profitable and meets our objective," he adds. "And the day it doesn't meet our objective, we will sell it."

How good is the track record? Mr Tsai is dogged by his prominent role in a memorable book, The Go-Go Years, by John Brooks in 1973. Practically all the press clippings since then seem to have drawn in one way or another on this not hugely flattering account of Mr Tsai's early years—his birth in Shanghai, *his move to the US* at the age of 17, his all-star years as a fund manager at Fidelity, and what Mr Brooks described as his apotheosis.

This came after Mr Tsai had set up his own mutual fund, which pulled in an extraordinary $247m on its initial launch in 1966. But he was to do a lot better out of it than his customers. In 1968 his performance turned sour, and he cashed in his chips by selling his company to CNA Financial for about $30m. His status as a public hero disappeared overnight.

"Everybody always goes back to 1968," complains the Formidable Public Relations Person. "He has been in business for 35 years, and each of his endeavours have been very successful except for that one year."

Mr Tsai is philosophical about history's verdict, but has no regrets about the go-go years. "They were terrific," he says. And being Chinese was a big plus. "Thousands of portfolio managers went around the country to talk to brokers about selling funds in the old days. I was the only one that did not look Irish."

After a few years with CNA, where his performance earned distinctly mixed reviews, Mr Tsai moved on to run his own brokerage firm through the mid-1970s. Although he says it was tremendously profitable, it failed to make any great impact and it was only in 1978 when he began what Business Week was to describe later as a comeback so dramatic "that it verges on reincarnation."

That was when he started his move into the insurance business, a process which received an enormous boost in 1982 when American Can, anxious to diversify away from packaging, took the business over. The deal gave Mr Tsai a substantial personal stake in the company, something which clearly influences his approach to its expansion today.

"It is nice for Roger Smith [of General Motors] to take a risk by buying a company for $3bn," he observes. "It is not his money. When we spend our money, we think about it — more than twice."

Mr Gerry Tsai: "We are good guys"

The acquisition of Smith Barney clearly does not satisfy his global ambitions, but the *next big deal could be a little* way off. With shareholders' funds of roughly $1.5bn, the deal will take the debt/equity ratio up to around 50:50, which he says is too high. "Temporarily, we do not have much room for more big deals."

When they come, they will be friendly. Mr Tsai is strongly opposed to hostile bids, especially in the financial services business where you usually have to pay a big price for goodwill. He has a good relationship with Kleinwort Benson, the UK merchant banking group in which Primerica held a much discussed stake until earlier this year.

He also shuns greenmail. "We are good guys," he states firmly. And Smith Barney will not be willing to use its own capital on any scale to back clients in contested takeovers. That business, he says, is just too risky.

So far, Primerica's performance has been impressive. The group recorded a net loss of nearly $137m in 1982: last year's net income was up to $175.2m, and the first quarter of 1987 brought an earnings gain of 17 per cent. Two years ago, it had to write off $29m following problems with a title and mortgage insurance business. But this was much more than made up for in 1986 when it sold 17 per cent of an asset management company for $79m —double what it had paid for the whole business three years earlier.

It was this performance which brought promotion at the beginning of this year to chairman and chief executive, over the heads of longer established candidates.

Although Mr Tsai says he never interferes with the management of the mutual fund business, he is still actively interested in running the insurance funds. He retains an unemotional approach to portfolio management. "If we like a management we own the stock. If we don't like what they are doing, we sell the stock. I don't have time to go and talk to them about how they should run their business."

And although he confesses to being very wary of share prices in Tokyo, he is happy with the US market and, no doubt, with the *performance of his shares* in Primerica. They have fallen back sharply from their year's high point but still trade at *about $42—something* like three times their value when he moved in five years ago.

Paul Betts explains why the secretive tyre maker is seeking new equity

Michelin opens its doors to the public

IT WAS a strange and rare sight, at least for Clermont Ferrand, the large provincial city in central France which is synonymous with Michelin. For the first time in its secretive history, the French tyre group, the world's second largest after Goodyear of the US, invited a group of European financial analysts for a buffet lunch under a large tarpaulin beside its main tyre testing track just outside the town.

Mr Francois Michelin, the discreet and retiring *patron* of the tyre group, who still carries the modest title of "gerant" or managing partner, was also there to greet the analysts from London and Frankfurt. The same day, the analysts had been given a briefing of Michelin's financial situation and prospects. The day before, another planeload of analysts from Switzerland and Belgium had been flown down to Clermont to be given the same treatment.

"It is quite unprecedented for Michelin to invite analysts for such a visit," acknowledged a Michelin executive. But then times and circumstances have changed, even for Michelin. The company, famous for its traditional discretion, is now opening itself up to the outside world and becoming in the words of another official "a more normal kind of company."

But the French group, which transformed the tyre industry with its revolutionary invention of the radial tyre, is not only abandoning its old introvert habits, it is also actively encouraging greater public ownership. Michelin has just opened about 10 per cent of the capital of its large international holding company based in Switzerland — Compagnie Financiere Michelin (CFM) — to outside shareholders.

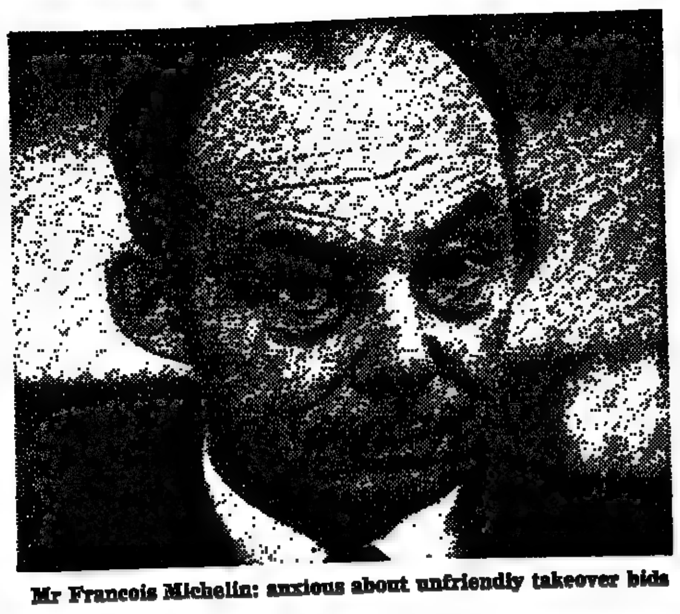
Until now, the French group of CFM, which incorporates all of Michelin's extensive industrial, commercial and research activities outside France. With sales of SFr 8.68bn ($5.86bn) last year, it accounts for about 75 per cent of Michelin's total group turnover.

The operation, involving an issue of new bearer shares will raise SFr 30m in fresh cash for Michelin. "This will help us reduce debt, and in my opinion the best investment we can do right now is to pay back debt said Mr Michelin.

After losing in the three years to the end of 1984 more than FFr 8bn ($1.33bn), Michelin has now staged a spectacular recovery. Group profits were FFr 1.9bn last year on sales of FFr 46.3bn, compared with profits of FFr 1.04bn the year before on sales of FFr 46.6bn. The Swiss holding company, which lost SFr 606m in 1982, saw its profits rise 124 per cent last year to SFr 361m compared with 1985. But debts still remain at an uncomfortable level. The Swiss holding company's financial debts currently amount to about SFr 4.5bn.

Yet there is more to the Swiss issue—which follows a Michelin FFr 1bn rights issue in France last year and another FFr 1bn new share issue with equity warrants the year before —than just a balance sheet strengthening operation. Mr Michelin believes that by opening up his group's capital to long term, stable public shareholders, Michelin will be able to preserve its independence and freedom as well as financing its continuing international developments.

With a Swiss operation, Michelin will now have two vehicles to raise equity financing and broaden its equity base —the French Michelin holding company and the Basle-based company. Michelin also decided to make the Swiss holding vehicle into a public company because of its size and importance in the group.



Mr Francois Michelin: anxious about unfriendly takeover bids

Mr Michelin makes no secret of his anxieties over the new business climate of unfriendly takeover bids and corporate raiders. Not that Michelin itself is in any great danger since family control remains solid, to say the least.

But he says he was shocked by Sir James Goldsmith's raid on Goodyear, Michelin's main international rival. "What happened was very serious for Goodyear. It is the sort of thing which can destroy free enterprise," he said. Indeed Mr Michelin, whose paternalistic and understated management style seems to command great loyalty among his troops, says with a typically Michelin phrase, "the real capitalist is an ecologist."

If Michelin today gives all the appearances of a company in confident spirits, it is in large part the result of the group's and Mr Michelin's long term approach to industrial strategy. The peculiar structure of the group, which is run as a partnership, has enabled it to take a long view even at difficult times, says Mr Behrouz Chahid-Nourai, the finance director. "Partnership is the ethics of the management of this group and the managing partner can take long term risks and strategies," he added.

This has not been the case of all Michelin's competitors. "The reason we are so successful in the US is because of the mistakes of our competitors, Mr Michelin likes to say." Mr Chahid-Nourai told the analysts. "And the mistake was to delay entry into radial tyres because of quarterly earnings preoccupations."

Michelin, which built its first North American plant in the 1970s, is today the leader in the US radial tyre market for trucks. It had 11.4 per cent of the US original equipment passenger car tyre market last year, while in the US passenger tyre replacement market it had an 8.8 per cent share, behind Firestone with 9 per cent and Goodyear with 15.5 per cent.

North America today accounts for as much as 28 per cent of Michelin's group sales, with France now accounting for only 16 per cent. North America also now accounts for 21 per cent of group production compared with 31 per cent for France and 45 per cent for the rest of Europe.

Michelin, which has already invested about $1bn in North America since the early 1970s, is planning to spend a further $200m over the next three to four years to increase production there by 30 per cent. It is also planning to spend $100m to double capacity in Brazil.

But if North America is now making a profit, and is estimated to be generating annual sales of about $1.5bn, it took strong nerves on the part of Michelin to pursue its costly American investment programme in the early 1980s. At the time, the car industry was in crisis and the group was plunging into the red.

Mr Michelin admits he was worried stiff. But he preferred to persevere, even at the risk of seeing debt grow to what he acknowledges was a level "beyond the reasonable."

He also admits that there were many worried people inside the company in the 1970s when he decided to conquer North America. For a company with such deep provincial roots—and Michelin was then only about one-fifth the size of Goodyear—it seemed at the time an extraordinarily ambitious move.

The risks seem to have paid off. Michelin today has, in the words of Mr Chahid-Nourai, "probably the most modern industrial tool in our business especially outside France." Of the group's 51 factories around the world, half have been built after 1970. Yet this would not have been possible without the group's long term approach to risk.

While pursuing its ambitious and costly investment programme, Michelin also set about a sweeping restructuring of its operations. It improved productivity, reduced stock levels and cut financial costs. The group, which now employs 114,000 people, has cut its French workforce by about 12,000 since 1982 and its international workforce by another 11,500. Stocks of Michelin's international operation outside France accounted for 38.5 per cent of sales in 1981. The ratio was brought back to 29 per cent by 1984.

Group productivity has been rising by 9.5 per cent a year since 1982, says Mr Chahid-Nourai. Investments have also now been reduced to a more normal level of 4-4.5 per cent of sales, although this is still above the 3.5 per cent industry average. But Michelin has kept up a particularly high level of annual research.

Although Michelin still lost money in France last year, the restructuring is expected to start bearing fruit. Analysts expect the French operation to be in the black or at least break even this year, although Mr Michelin prefers to say more cautiously that his target is to see the French operation firmly in the black by 1988.

Another striking example of the evolution and more outward approach in the way Michelin is now doing business came at the beginning of this year. This involved Michelin's decision to team up with Wuon Poong in a South Korean joint tyre production venture.

The deal marks a rare departure in Michelin's traditional "do it alone" strategy. Indeed, it had never before entered into a 50:50 joint venture agreement with another manufacturer, preferring in its independent fashion to control entirely its industrial and commercial operations at home and abroad.

Michelin still does things in its own peculiar way, even, with the financial community. Mr Jacques Calvet, chairman of Peugeot, the car group in which Michelin owns a 7 per cent stake, was amused when he heard the Michelin had invited Europe's top analysts to Clermont. "Everybody else has to go on exhausting road shows to meet the analysts, but Michelin gets them all to come down to see them in Clermont," he said

A NIGHT AT THE OPERA FOR THE GUESTS. THREE DAYS IN THE QUEUE FOR THE BELLBOY.

In Munich, tickets for the New Year's Eve opera are about as plentiful as snowballs in August.

(Except when the opera is Johann Strauss's 'Die Fledermaus.' Then the tickets are really difficult to get hold of.)

In fact, if you want a ticket you have to prove your dedication beyond all reasonable doubt.

Three days before the performance, you have to report to the ticket office at 6.00 am.

Two hours later you have to report again. And two hours after that, and two hours after that. And so on until 10.00 that night. (This soon sorts out the zealots from the merely enthusiastic.)

The next day, the same thing happens.

And on the third day (by which time only the fanatical fringe is left) you queue continuously from 6.00 am until you get a ticket.

So when two of our regular guests at the Munich Sheraton asked after tickets to 'Die Fledermaus,' all we thought we could offer was a sympathetic shrug.

But the concierge got to hear about it.

And the bellboys. And instead of our guests spending the best part of three days queuing, one of the bellboys volunteered.

Last year we spent millions refining our service.

If our staff respond only half as well as the bellboy from Munich, it will have been money well spent.

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UK NEWS – AFTER THE ELECTION

Thatcher keeps options open as reshuffle introduces more of the same

Peter Riddell assesses the Prime Minister's Cabinet changes

MRS THATCHER is a Fabian when it comes to changing her Cabinets — a believer in the inevitability of gradualness. Stage by stage a few long-serving ministers are dropped, some promising middle-ranking ones promoted and an eye is kept on the next reshuffle in a year or 18 months' time.

The team announced on Saturday is unlikely to last the full parliament. Only 13 of the 21 in the June 1983 Cabinet survived until the start of the election; now only eight remain (with one returning). There are now only five survivors of her first Cabinet in May, 1979.

Saturday's reshuffle has clearly been fashioned to allow another one in the middle of the parliament when Mrs Thatcher may undertake the changes to the machinery of government she has decided against now — affecting the Departments of Trade and Industry and Energy and splitting the Department of Health and Social Security.

Moreover, Lord Whitelaw, the leader of the Lords, and Mr Norman Tebbit, the Conservative Party chairman, have both indicated they do not want to serve a full parliament. Some of the appointments, like Sir Michael Havers as Lord Chancellor and Mr Paul Channon as Transport Secretary, do not look like long-term ones.

The departures are largely predictable — Lord Hailsham, the Lord Chancellor, because of age; Mr Michael Jopling, the Agriculture Minister, because of length of service and lack of anywhere to go; Mr John Biffen, the leader of the Commons, by virtue of his increasingly public disenchantment with Mrs Thatcher's style; Mr Nicholas Edwards, the Welsh Secretary, because of his retirement from the Commons; and Mr Norman Tebbit, largely because of the continuing strains produced by his wife's injuries in the Brighton bombing of 1984.

Mr Tebbit will oversee a reorganisation at Conservative Central Office after the remarkable semi-public squabbling between members of the Prime Minister's staff and his own advisers over the role of Saatchi and Saatchi, the Tories' advertising agency.

His decision not to remain in the Government is not the political shock it would have been a couple of years ago. Mr Tebbit has not looked even a possible successor to Mrs Thatcher for some time and clearly prefers to make a break at 56 to be with his family, and possibly later to go into business, rather than face the burden of a major department. In a warm exchange of letters Mrs Thatcher remarked on the loss of his "wit and debating powers round the Cabinet table."

Their replacements contain few surprises. Mrs Thatcher has long wanted to recall Mr Cecil Parkinson and her closest advisers have dropped their doubts, believing he can no longer be damaged by further press reports on the Sara Keays affair. The Department of Energy is an obvious place for him to re-enter the Cabinet, with major decisions ahead on the form of electricity privatisation.

Mr Parkinson is also the exception to the general rule under Mrs Thatcher that those dropped almost never return. There is, as expected, no place for either of the Westland casualties, Mr Michael Heseltine and Mr Leon Brittan (despite Mrs Thatcher's letter to Mr Brittan in January 1986 expressing hopes about his return to office).

Mr John Wakeham was a highly succesful Chief Whip with a proven "feel" for the House of Commons, so he was always the most likely successor to someone as popular with MPs as Mr Biffen. However, Mr Wakeham is likely to play a more central role in Government strategy than his predecessor.

The choice of Mr David Waddington as Chief Whip fits the pattern of choosing someone who has served in the whips' office for a time and then obtained ministerial experience in a department. He will be a popular appointment with centre/right MPs.

Despite recent ill-health, Sir Michael Havers was the obvious interim successor to Lord Hailsham as Lord Chancellor and had long been promised the post. But Sir Geoffrey Howe could still be heading in that direction later in the parliament. And there is little surprise over the promotion of Sir Patrick Mayhew, the Solicitor General, who has frequently deputised for Sir Michael.

The other promotee, Mr John Major as Chief Secretary, is the least known, but has a high reputation at Westminster and now has one of the most crucial roles with responsibility for public spending.

Mrs Thatcher has also switched around several ministers. In particular, the duo of Lord Young and Mr Kenneth Clarke (the latter becoming Chancellor of the Duchy of Lancaster rather than Paymaster-General) move over from Employment to Trade and Industry, taking with them the inner city unit.

There has for some time been pressure for a shake-up at the DTI after four secretaries of state in the past four years, so further ministerial changes in this department are expected.

The other significant switch is of Mr John Moore from Transport to Health and Social Security. The Tories came under considerable pressure during the campaign over the health service and its allegedly "uncaring" image. Mr Moore, who has a reputation as a good communicator, is expected to co-ordinate the Government's counter-attack on this issue.

Mr John Macgregor was an obvious choice to take over as Agriculture Minister since he served in the department as a minister of state. Mrs Thatcher wants to use his Treasury experience to tackle rising agricultural spending and the general position of farmers.

The other changes are largely consequent. After nearly six years at the DHSS Mr Norman Fowler was due to be moved and at the Department of Employment he will now deal with the next stage of trade union legislation.

Some MPs had thought that Mr Paul Channon, an emergency choice at the DTI in the Westland crisis, was likely to be dropped after a controversial 18 months. But Mrs Thatcher generally likes to give ministers longer to prove themselves and, at Transport, many of the key decisions, on the Channel Tunnel, BA and airports, have already been taken by Mr Moore.

The most unexpected move involves Mr Peter Walker, from Energy to Wales. Mrs Thatcher always had a problem in that there was no plausible successor to Mr Edwards among Welsh Tory MPs and Mr Walker at least has the seniority and Commons experience to deal with complaints from opposition MPs.

The surprise is that Mr Walker accepted. He has looked an increasingly isolated figure in the Cabinet, performing his departmental duties fully on the coal strike and nuclear power, but with little wider influence. His career appears the reverse of the normal progression, starting, between 1970 and 1974, as Environment and Trade and Industry Secretarie and, since 1979, successively Agriculture, Energy and Welsh ministers. He has retained office, while most of his former allies and colleagues have departed.

The reshuffle is not, of course, complete and there will be further changes at the middle and junior level in the next day or two. Mrs Thatcher has to replace the three Scottish Office ministers and whip who were defeated, as well as a junior Welsh Office minister. Lady Young the number two at the Foreign Office, has also said she is resigning.

The aim will be to bring on younger ministers and backbenchers, but, as with the Cabinet, the result will be to leave the character of the Government largely unchanged. It is all rather like a school in which the pupils alter over the years, some leaving and others joining, but the headmistress remains to provide continuity.

Havers replaces Tory philosopher Hailsham as Attorney General

BY JOHN HUNT

THERE COULD be no greater contrast than that between Lord Hailsham, aged 79, the retiring Lord Chancellor, and Sir Michael Havers, the Attorney General, aged 64, who has been chosen to succeed him.

In his parliamentary career spanning nearly 50 years the rumbustious Lord Hailsham has frequently been the centre of controversy for his outspoken views. He has combined the role of Conservatinve Part yelder statesman, political philosopher and swashbuckling orator in parliament and on the hustings.

Sir Michael has also been no stranger to controversy, notably in the row over Westland, the Zircon spy satellite affair and Mr Peter Wright's MI5 memoirs. But throughout these travails he has been very much the precise lawyer's lawyer and has never lost his urbane composure, even under fierce criticism.

Over the weekend, Lord Hailsham made his departure with typical style and a strong sense of tradition. He was kissed on the cheek by Mrs Thatcher at No 10 and in his farewell note said they had both agreed that the time had come for him to lay aside his wig.

He also said it was time for the Lord Chancellor's gold robe to go back in its tin box. He hoped that he had worn it without dishonouring the memory of his father, the first Viscount Hailsham, who had been twice Lord Chancellor.

Lord Hailsham occupied the Woolsack from 1970 to 1974 in Mr Edward Heath's Government and from 1979 in both Mrs Thatcher's administrations. He entered the Commons as MP for Oxford City in 1938 and after war service served in Conservative Governments as Minister of Education, Minister for Science and Technology, First Lord of the Admiralty and Lord President of the Council.

In 1957, following the Suez crisis, he enjoyed a famous moment at the Conservative Party annual conference, when he rallied the shaken rank and file by loudly ringing a handbell and declaring that "it tolls for Socialists."

In 1963 he was again the centre of political drama when he renounced his title in order to contest the leadership of the party following the unexpected resignation of Harold Macmillan. But after soundings were taken in the party the Queen sent for Alec Douglas-Home as successor.

After serving in various offices in the Comons under his original name of Quintin Hogg he returned to the Upper House as Lord Chancellor in 1970.

His two terms on the Woolsack have been during the period of the far-reaching civil justice review, the final paper of which is due for completion in October, around the time of his 80th birthday.

Sir Michael, who was Recorder of Dover, Recorder of Norwich and Chairman of West Suffolk Quarter Sessions, entered the Comons as MP for Wimbledon in 1970 and was made Solicitor General in 1972. He was appointed Attorney-General when Mrs Thatcher came to power in 1979.

During the turbulent years that followed he was sometimes accused by Labour of being "Mrs Thatcher's poodle." However, in a recent interview he declared: "I've never had a row with her and I'm certainly not her poodle. She is the first to recognise that I have a great independence and she's very quick to see just where the line needs to be drawn and respects it."

Outsider Young stays in fast lane towards highest summit

BY ALAN PIKE, INDUSTRIAL CORRESPONDENT

AN UNEXPLORED market with guaranteed future growth potential is in biographies of Lord Young of Graffham.

There has been no other modern example of an outsider to politics moving so far and so fast in government as the newly-appointed Trade and Industry Secretary.

Lord Young entered the Government with less obvious political experience than either of the other two most famous post-war outsiders who have served in British Cabinets — Mr Frank Cousins, who joined the first Wilson Government from the Transport and General Workers' Union and Mr John Davies, former director-general of the CBI, who served under Mr Edward Heath.

Lord Young has had an easier life than his two predecessors in being spared exposure to the House of Commons. But he has nonetheless displayed a sense of political ease which came far less naturally to the other men.

This has enabled him not only to run the Department of Employment and before that the Manpower Services Commission with none of the conventional experience for the jobs, but to play a central part iu the planning and execution of the Conservative election victory.

Lord Young will take with him to the Department of Trade and Industry Mr Kenneth Clarke, who has been his employment spokesman in the Commons. The two will also take the Department of Employment's former responsibility for the inner cities task force initiative, which they set up two years ago.

This means Lord Young is to play a major part in the attack on inner city problems, to which the Prime Minister has said she intends giving priority.

Lord Young: entered Government with little experience

Lord Young, who made a personal fortune in the property business, has been at the Department of Industry (as it then was) before—as an unpaid adviser to Sir Keith Joseph when he was Secretary of State. He then became the Government's unexpected choice as chairman of the Manpower Services Commission in 1982, before entering the Government as Minister without Portfolio in 1984.

In this post he had cross-departmental responsibility for stimulating enterprise. Political observers predicted that his tiny enterprise unit would be isolated and marginalised by jealous departmental ministers. Instead, he was appointed Employment Secretary the following year and took the enterprise unit with him.

The Department of Employment has changed radically under Lord Young, who has shown far more enthusiasm for using its resources to stimulate the economy than he has for its traditional industrial relations responsibilities. Leaving the department at a time when further industrial relations legislation is in prospect is not something which will disappoint him.

It is certain that the beliefs which have guided his approach in both previous Cabinet posts—that all possible barriers to successful competition must be removed and that only a successful competition must be removed and that only a success-economy, rather than Government action, can create real jobs—will be his starting point for action at the DTI.

Moore to push caring image

BY TOM LYNCH

THE GENERAL election campaign established Mr John Moore as one of the Conservative Party's best communicators. His appearance on an election broadcast was regarded as a success and his frequent appearances beside Mrs Thatcher at daily press conferences were rightly seen as a sign of imminent preferment.

Now, still a few months short of his 50th birthday, he takes charge of the Department of Health and Social Security knowing that the Government has a long way to go to convince millions of electors that it does care about the National Health Service, over which he will preside.

Mr Moore, MP for Croydon Central since February 1974, is certain to adopt a higher profile than Mr Norman Fowler, who often seemed to be eclipsed in the Commons by his energetic ministers of state Mr Tony Newton and the just-elevated Mr John Major. His appeal to the party faithful is helped by youthful good looks and his campaigning skills were sharpened by four years in US politics—as a Democratic Party precinct captain in the early 1960s.

Since his arrival in the Commons he has established himself as a liberal on social issues, but very much in the monetarist mould on economic issues. When Mrs Thatcher won power in 1979 he became a junior minister at the Energy Department, where he stayed for Mrs Thatcher's first term, taking charge of coal and then of nuclear power.

The reshuffle after the Conservative triumph of 1983 took him to the Treasury, first as Economic Secretary then as Financial Secretary, where he threw his considerable energy into a cause he had made his own in a series of influential speeches—the co-ordination oft he Government's privatisation programme. As recently as last year he was insisting that the Government would not rest until all commercial undertakings were returned to private hands.

Mr Moore's widely expected promotion to the Cabinet came in May last year, when he succeeded Mr Nicholas Ridley as Transport Secretary at a time when his pet subject of privatisation was much on the department's agenda and as the UK prepared to take over the preseidenecy of the European Community, with liberalisation of air fares a prime British objective.

He pressed ahead with the privatisation of British Airways and the National Bus Company and planned the sale of the British Airports Authority as well as getting the privately-funded bridge over the Thames at Dartford under way. He has also pushed—sometimes vigorously the Channel Tunnel Bill

However, he has had to compromise on liberalisation of air fares. He started his chairmanship of the EC transport ministers with a declaration that Britain would take unilateral action if negotiations failed, but presided over a deal which disappointed many radicals.

His time at the DHSS is likely to be no less busy than his year in charge of transport. Those envious of his skills as well as those senior colleagues who see him as a potential rival for the future leadership of the party will be keeping a close eye on his stewardship of it—and on his efforts to promote a more caring image for the Conservatives.

LUXEMBOURG IN THE NEWS

A report for international decision-makers

I/87

Luxembourg Strengthens its Role in the World Financial Community

BY ELLEN WALLACE

International financial markets in 1986 were characterized by movement: exchange rates shifted, often dramatically; interest rates fell; new instruments were created to meet demands of borrowers and investors alike, and among bankers, the popularity of older tools of the trade rose and fell. Profit margins were squeezed. Securitization was no longer a trend but a fact of life.

There are profits to be made in such an environment. In Luxembourg, first reports show banks ending the year strongly in the black. Meanwhile, the Government has continued to take measures to reinforce the Grand Duchy's role as an international financial centre. Deregulation theoretically means most markets can do most kinds of business, but in reality, the sharp competition among financial centres has forced them to specialize. Luxembourg has, since the beginning of the 80s., been moving in new directions and last year's results were a tribute to the success of this shift.

The Government of Luxembourg has been faced with the difficult task of balancing its own income needs – financial services are the Duchy's second largest business – with the realization that it must ensure the centre's competitiveness. Easing the tax burden is a stated priority. To that end, several cuts went into effect in January and others will follow.

The banks have been actively building new business. Private banking is of growing importance, especially for those banks which were established as booking offices and were heavily dependent upon Euroloans. For many of them, 1986 was the first year the move into portfolio management began to show substantial results. The need to increase private banking and fee earning business has led to some interesting developments, one of which is the sudden surge in investment funds. The search for profitable new instruments has also led to the growth in the volume of bonds denominated in Luxembourg francs.

1986: Another good year

No banker minds a good year, but what would appear to be outstanding results last year were especially welcome to Luxembourg bankers. Preliminary reports indicate that profits were up strongly for most banks. Bankers' comments range from "exceptionally good" to "great success."

The good report card follows a period of some uncertainty: high risk loans and the provisions that had to be set aside to cover these were coupled with the sharp drop in traditional Euroloans.

Several factors converged to move the banks beyond this stage. For most banks, the volatility of the foreign exchange markets and healthy growth in major stock markets were important. Investments made two to three years ago by some banks to set up private portfolio management services began to pay off.

Luxembourg's banks have historically fallen into groups divided by nationality; banks from one country came mainly to do the same type of business. That has begun to change, as banks here diversify their activities, but there were common threads among the reasons cited by banks from the same countries for their successes last year. Scandinavian banks frequently point to private banking, claiming that the tax climate in some countries prompts pensioners to settle abroad and to invest their money elsewhere. As traditional Eurocredits became harder to come by, Scandinavian banks moved in two directions: off-balance sheet business and private banking. Ole Roed, managing director of Bergen Bank International, believes "There is a tier below the very rich people, where there is a growing awareness, more sophistication about investing. So there is a whole new market opening up."

German bankers point to a similar group of their compatriots who have become more attuned to investment possibilities and who find Luxembourg's proximity and banking secrecy appealing.

For these banks, it is not enough to simply set up portfolios and manage them; the move in this direction has provoked a need for more competitive action in fee income areas. One bank points with satisfaction to its forward trading, another says overall off-balance sheet income was up 25 %.

"Private banking" – that was the immediate reply by one American banker when asked what he sees as his company's strongest card, and the reason why it did so well in 1986: "it's cheap here, and it's wide open." He and other Americans point out that their customer profile in Luxembourg is distinctly European; in fact, some of these banks pointedly exclude American customers, while other banks do not encourage American accounts. They also agree that in Luxembourg "the servicing side (for capital markets) can be good business. Holding companies here are good vehicles."

French banks showed solid growth across the board, a reflection of their expansion internationally. According to Gerret Schaaphok, director of Banque Indosuez Luxembourg, solid growth in 1986 is partly a result of the long history of French banks in the Grand Duchy. The French were some of the first foreigners to set up in banking in Luxembourg, before the second World War, when they saw their operations as an extension of regional banking policies. The business base broadened during Luxembourg's rapid expansion in the 70s. When French banks were nationalized in 1981, their Luxembourg connections didn't suffer, so says Schaaphok, but the liberalization of recent months is now beginning to pay off.

For the Italian banks, a profitable area was acting as the link between Italian industry and banks who suddenly found Italy interesting but did not have their own contacts. Interbank activities, says one banker, accounted for 50 % of his profits last year. The Italian banks have remained, as a whole, more involved in traditional commercial banking than many others in Luxembourg, largely because of foreign exchange controls at home.

The problem is how to maintain the performance record. Bankers voice worries that market conditions may be less propitious in future months, and they are consequently working to ensure they keep their stakes in new areas of business. That concern, plus the need to service such business, has brought a new competitive edge to Luxembourg.

Investment Funds (Amounts in billions of Flux[1])

Year	Mutual funds		SICAV[2]		Other investment funds		Total	
	No.	Net assets	No.	Net assets	No.	Net assets	No.	Net assets
1977	27	59.8			55	23.9	82	83.7
1978	28	61.0			43	25.4	71	86.4
1979	32	58.8			42	26.8	74	85.6
1980	34	74.8			42	43.6	76	118.4
1981	40	112.6			41	55.8	81	168.4
1982	45	124.9			42	64.4	87	189.3
1983	52	176.9	2	8.4	45	126.4	99	305.3
1984	67	246.9	20	40.9	45	151.1	132	398.0
1985	84	359.7	41	100.2	52	172.3	177	632.2
1986[3]	101	537.5	110	289.7	50	176.9	261	1,003.9

[1] One Flux – one Luxembourg Franc
One US dollar was worth 41.10 Flux on December 31, 1986
[2] SICAV: Variable capital investment company
[3] Estimation at December 31, 1986
Source: Luxembourg Monetary Institute

Investment Funds Expanding Rapidly

If there is a boom that has touched every banker in Luxembourg, it is in investment funds. The figures are plain: from 1983 to 1986, the number of funds nearly tripled to 261 (December) and funds' assets more than tripled, to Luxembourg Francs 1,003.9 billion.

This sudden increase can be attributed mainly to a change in the law at the end of 1983, but several other factors also play a role. In 1972, the Grand Duchy required registration of fixed capital funds in order to better protect small investors. Supervision otherwise remained flexible. The 1983 law was drawn up in response to the rapid growth of aggressively managed offshore funds during the 70s. "We tried in 1983 to come up with an imaginative solution," says Remy Kremer, director of Banque Générale de Luxembourg and president of the ABBL. "The new law was so much more concrete and clear for foreigners. Before, they had hesitated."

It provided for three kinds of funds: mutual funds, variable capital investment companies, and "other funds." There is no legal definition for the latter. The real impact of the 1983 law is that it permitted the creation of variable capital companies, "SICAV's." A SICAV has more flexibility than traditional mutual funds because its capital is equal to the value of its net assets and no shareholder meeting is necessary to approve changes in the capital.

Of equal interest to foreign funds: the SICAV as well as other investment funds have a legal status, which means they can be quoted on stock exchanges. Banks look ahead to the European Community's goal of abolishing borders for capital by 1992. When that occurs, shares quoted on one stock exchange can also be traded on other EC exchanges.

SICAV's are the fastest growing funds: there were 20 such companies at the end of 1984, the first full year, and 110 by December 1986. Mutual funds grew strongly as well, from 67 to 101 in that same period. According to Fréderic Wagner, assistant director at Banque Internationale à Luxembourg, the new rules provide banks and investors alike with more options. "From the investor's point of view, there can be a fiscal difference with a SICAV: he is a shareholder and only pays taxes on dividends or earnings ... but there are certain cases where mutual funds remain interesting. Also, mutual funds can distribute dividends daily, and thus may be useful for money market operations."

Virtually every foreign bank now has a fund(s) or plans to establish one. Some are managed from Luxembourg, others from London; the choice seems to depend on individual fund goals. The boom has created a healthy new business for the Luxembourg banks.

Bankers expect the number of funds to continue to grow. Last year, the Scandinavians entered the market with four funds; the Germans have been slower, but these banks, too, have plans. Says one German, looking at his blueprints: "Mutual funds were never as big in Germany as in Anglo-Saxon countries. And because of our relatively late start in private banking, we didn't need our own investment funds to service our clients. But the time has now come. We've set up the personnel, the clients are here now, particularly smaller customers. In addition, we're looking at a wider distribution, maybe in Germany. We can't do that right now, but we will be able to with the EC lifting of restrictions."

Saturation is unlikely, since the investor pool is international. The increase in private portfolio management in Luxembourg promises to fuel the expansion of the fund business. Why Luxembourg? According to Wagner of BIL, "There is a legal framework, but one that is more flexible (than elsewhere). It is easy to set it up here. There are quality investors, and also, we belong to the EC and we are part of the OECD. This can be important, for example, for registration in Japan."

Flux Bonds Find Favour

A market which moves creates new needs; the growth of bonds denominated in Luxembourg Francs (Flux) has been a popular way of meeting these in recent months. Looking at currencies, the share of the Flux in overall trading volume has increased steadily in the past two years. Figures for Flux bonds show tremendous growth in 1986: turnover was up 78.97 %, vs. 12.58 % the previous year. This compares with total bond trading in Luxembourg up 10.42 % in 1985 and 15.64 % in 1986. A particular feature of the market was the early redemption of bonds which saw 84.72 % growth.

The increase in trading was not due to traditional Flux borrowers – the Luxembourg public sector – but rather, to foreign companies, international institutions and most spectacularly, Luxembourg-based financial companies that traded heavily as part of their dealing in convertibles and warrants.

One foreign banker explains the market's development this way: "Prime borrowers made bond issues, they've taken up fixed rate loans here. We've participated in such loans and now we're doing private placements to repay them at lower rates. We participated in such transactions because there were interesting borrowers and it's a good market."

Kredietbank S.A. Luxembourgeoise's director, Damien Wigny, says "The interesting thing about this market is that it's not dominated by the State. Our Government is not a heavy borrower and in fact, the authorities want to keep the market open to foreigners." The market is small but fast-growing. He cites two main reasons why foreigners like the market: it gives them access to the Franc (the Luxembourg Franc is linked to the Belgian Franc, and although that market is larger, it is almost completely dominated by the Belgian Government, leaving little room for other borrowers); it is open to foreigners for private placements. There is a system of access by "priority" for public issues.

The Luxembourg Franc has become more appealing as limits on its use have gradually been lifted. Private placements in Flux began in 1978–79, when one borrower did not want to wait for his turn in the queue. But limits were quickly established for private placements: they could only be half the amount of public issues, the market was limited at any one time to half of all issues. In 1980–81, other limits were added when the four banks who were active formed a committee and set up strict rules. But these limits began to fade away in 1984. Since then, says one banker, "It's been an open market." In 1985, there were 33 private placements, in 1986, 74 and in the first 10 weeks of 1987, 21, so the rapid expansion of the market looks likely to continue.

The real limit, bankers suggest, will be placing power. A borrower in Flux pays less than if he were borrowing Belgian francs because the interest rate is lower.

Some Belgian and Luxembourg investors are looking for good investment vehicles in their own currency.

Luxembourg Franc Capital Market

(Flux million)	1984 Number of issues	1984 Amount	1985 Number of issues	1985 Amount	1986 Number of issues	1986 Amount
Public issues	14	10,000	18	13,100	22	19,100
Private placements	18	4,500	42	11,725	81	24,200
TOTAL		14,700		24,825		43,300

The Reasons for Banking in Luxembourg

SOLIDITY QUALITY EFFICIENCY DIVERSITY

A long established tradition
A modern communication network
A qualified multilingual staff
A stable and sound national environment

A sound legal framework
A competitive fiscal environment
A sound balance sheet structure
A serious and experienced banking control

A strict legislation as regards banking secrecy
A very broad range of services offered
An attractive framework for holding companies and investment funds

Government Eases Tax Burden

Contrary to a widely held misconception, Luxembourg is not a tax haven.

It is, however, stated Government policy to create conditions allowing the financial centre Luxembourg to compete on equal terms with other important financial centres.

Over the years, this policy has been translated into various measures, benchmarks being:

- in 1978, unilateral relief for foreign withholding tax, supplemented by cancellation of the stamp duty on certificates of deposit and of the withholding tax on interest paid on bonds issued by Luxembourg borrowers, including banks;
- in 1983, fiscal neutralization of translation gains on reinvested equity;
- in 1984, a package comprising widened tax-deductible general loan loss provisions, improved rules for unilateral relief of foreign taxation and reduced solidarity tax.

Moreover:

- Value Added Tax on gold bullion for investment has been waived since 1979. Gold currencies are free of VAT;
- For holding companies set up under the 1929 law, the tax base is net worth (annual subscription tax of 0,2 %), not income. No withholding tax applies to dividends distributed by holding companies.
- For investment funds, income is tax exempt but a subscription tax of 0.06 % on net assets is levied annually.
- No turnover tax is levied on security transactions, whether via or outside the stock exchange.

Banks are increasingly conscious of their expenses as well as of the major tax issues and Albert Dondelinger, chairman of the executive board of Banque Internationale à Luxembourg (BIL) stated already quite some time ago "The corporate tax in Luxembourg is too high but the centre developed despite an unfavourable general tax situation for companies".

That's why Luxembourg's authorities, determined to see that the financial centre remains competitive, have taken, very recently, a series of measures to ease the tax burden.

Highlights of the new package include:

- a two-step 4 % reduction of the corporate income tax rate from 40 % in 1986 to 36 % in 1988. Corporate income tax is fixed at 38 % in 1987. In addition, a temporary surcharge called "solidarity tax" levied as a percentage of income tax has been reduced from 3 % to 2 %. So, in 1987, corporate income tax plus surcharge amount to 38.76 %;
- abolition of the "taxe d'abonnement" (subscription tax) on bond issues (corporations and holding companies);
- abolition of the stamp duty on bills of exchange;
- a further improvement in personal income taxes;
- in March, the Government agreed to some tax relief for specialists to help banks compete against the high salaries offered in other centres.

Many bankers feel that the tax authorities are taking an attitude bankers can work with. "It shows that the Government is aware of the competitive environment internationally", says Rico Barandun, head of Crédit Suisse.

American bankers, many of whom are now concentrating on private banking, agree that the cuts are "a good step", but point out that Luxembourg will have to keep working to compete tax-wise. German bankers, for their part, say that the rate's importance may be growing for them. The problem of high taxes has traditionally been offset by generous rules governing provisions.

Paul Schminke, managing director of Landesbank Rheinland-Pfalz International, notes that the abolition of certain taxes is already pulling some business back to Luxembourg: he cites the case of his own bank making an Australian dollar issue in January in Luxembourg rather than in an offshore centre because the "taxe d'abonnement" had been dropped.

Why Labour should dump the baggage of history

JOHN PLENDER

THERE IS a certain predictability about Labour's election post-mortems. The left blames the party leaders for not offering the electorate genuinely socialist policies: the right mutters darkly about Militant and the "London factor"; almost everyone curses the Alliance for splitting the anti-Tory vote. We all know the litany.

Yet if the British people are to have a strong opposition—as they surely ought to have during a third term of Mrs Thatcher—it is incumbent on Mr Kinnock and his followers to address the rather uncomfortable rhetorical question raised by Mr Norman Tebbit on election night when the outcome was already spoken for. Everyone, said Mr Tebbit, agreed that Labour's campaign was by far the most effective; so surely there must be something wrong with the product?

Labour supporters would no doubt regard this commercial terminology as indicative of a cynical view of the electorate. They might add that the public showed much sympathy with Labour aspirations on jobs, health and education. The real problem, however, is about means, not ends. What is it that Labour could do to convince the voters next time that it has an economic programme that might work?

The most difficult problem is to dispel the widespread conviction that a Labour Cabinet would inevitably consist of ministers hell bent on spending like drunken sailors: not surprisingly, given that the better things in Labour's electoral shop window involve spending more money than allegedly uncaring Tories.

It is hard to see what can be done about this fundamental conflict apart from changing the dramatis personae. Mr Roy Hattersley did a better job than he is sometimes credited with in trying to damp down the wilder commitments of his colleagues. But a cautious and articulate Scot from the right of the party like Mr John Smith, a forceful spokesman on trade and industry, might convey a more reassuring image on this particular score.

At the same time Labour's leaders will ultimately have to persuade the party faithful that they cannot win the election by marketing their own historical luggage, to purloin a Tebbit-like phrase. When it comes to the ownership of the nation's assets, the role of the trade unions and tripartite economic management, Mrs Thatcher has frankly won the voters round to her point of view. By now council house sales and share ownership via privatisation have gone too far for any future proposal to renationalise (sorry, socialise) British Telecom or British Gas to be other than an electoral ball and chain. Nor, one suspects, has the public much appetite for soul-searching in speeches and memoirs as to whether policy can be reconciled with the socialism of Keir Hardie.

Mrs Thatcher has won a fair amount of the intellectual high ground too. Apart from civil servants, who derive a personal pay-off from interventionism, it is becoming harder to find people who believe that an enlarged Department of Trade and Industry, a giant national investment bank or a scheme to repatriate Britain's overseas assets have much relevance to the economic conditions of the late 1980s, even if they sympathise with Labour's call for the re-industrialisation of Britain's depressed regions.

The germs of a more coherent Labour economic and industrial package arguably exist already. They lie in a combination of what Mr Hattersley has sometimes referred to as Labour supply side economics and the growing emphasis that Mr John Simth places on intervention from the bottom up, as opposed to grand dirigiste plans imposed from the top. And it might do no harm for Labour to trawl the world's more radical Labour and Social Democratic Parties, once the wounds have been licked, to lift some of their more imaginative supply side ideas.

Australia and New Zealand might well be a good starting point. It is unlikely, of course, that Mr Kinnock could adopt Mr Bob Hawke's kind of incomes policy or the well-nigh Thatcherite liberalisation programme of New Zealand's Finance Minister, Mr Robert Douglas. But both countries have engaged in radical tax cuts, recognising that a complex tax system provides numerous potential trade-offs between the withdrawal of allowances and the reduction of tax rates to achieve a whole range of objectives, including increased investment. Better, surely, than Mr Hattersley's vague threats to soak the rich.

The Democrats' presidential ...campaign in the US will also bear watching. But one ...of the biggest lessons there should have been learned already. Mr Walter Mondale failed last time because he sought to appeal to minorities, not to the majority. In Britain the lesson can be translated to mean that Mr Kinnock has to find a way to appeal to the south as well as the north. The chief obstacle in his path is history.

Battling the closed shop of the mind

A NEW orthodoxy on industry and higher education has suddenly begun to emerge. It states, among other things, that industry needs far more graduates with personal transferable skills like problem-solving, co-operation with others, clear communication, and the ability to benefit from information technology. This message is conspicuous in the White Paper, Meeting the Challenge, is a central theme of the recent report of the Council for Industry and Higher Education, Towards a Partnership, and is constantly reiterated in articles and speeches.

A little cynicism must make one wonder why such vigorous exhortations are still needed if the arguments for cultivating personal competency among students are so self-evident.

The fact is, of course, that rhetoric is one thing and practice another. British higher education functions in a way that makes it hard to give more weight to the development of skills. British industry's recruitment practices do not aim explicitly at detecting personal skills, nor to reward those who possess them.

There are two major barriers to enhancing personal skill and competence in the academic world. The first is a deep-seated cultural resistance to making the aims of education precise or explicit. Subject mastery, scholarship, and originality in research are generally regarded as qualities that can only be recognised by the already initiated — a closed shop of the mind. To define academic success in terms of competencies that could be evaluated by the lay person tends to be seen by academics as superficial vulgarisation, which obscures the essential value of higher learning.

Values like these tend to discourage students from considering their skill deficiencies and ways of overcoming them. They fear that to do so will make them appear to others as unworthy of higher education in the first place.

The second barrier to skills in higher education is the domination of the academic discipline. Although certain degree courses, like those in medicine and engineering, may concentrate to a great extent on students' capabilities, the academic discipline remains the dominant organising force.

The main yardstick of a student's success continues to be the extent to which he, or she, is able—usually in isolation, and under highly artificial conditions—to produce pieces of written work that are believed to demonstrate mastery of discipline-based knowledge.

To reach such a point, of course, students will need to have acquired implicitly skills such as co-operation with others, time-management, fluency in communication, and visual presentation. But these will seldom have been made explicit in their education — still less, actively taught. It is rare indeed that any attempt will have been made to assess them directly.

Typically, such capabilities are regarded as ancillary to the main aims of preparing for research and original scholarship. Certainly, that is the message of academic life: status, rewards, promotion follow research and publication—not excellence in teaching nor the design of effective ways of imparting personal skills.

The key to change lies in altering the balance between the academic and the consumer. The academic must be persuaded to present courses of study not as vague total experiences, nor lists of subject matter, but to specify them as means for the achievement of precise competencies, on which the lay person will be able to make informed judgments. (These might just as easily be of a general, cultural kind—acquiring a new reading of Keats's Odes—as severely practical—getting the most out of dBaseIII.) What is at stake is not subject matter, but the obligation of the teacher to specify an outcome.

Similarly, potential students should be encouraged to be more demanding and consumerist in their approaches to educational institutions. It must be taken for granted that courses should be shaped to fit the needs of students not, as at present, that students should be

By Peter Wright

moulded to the structure of courses.

The expansion of British higher education towards a mass system and the growth of credit transfer and accumulation will help to bring about such change. But a major shift will be needed towards recognising that the cultivation of a wide range of skills, and the encouragement of new strategies for learning, should lie at the heart of the work of colleges, polytechnics and universities. These activities must attract status and resources and serve as important criteria for promotion.

But industry also has a crucial part to play. The recent industrial support for transferable skills is positive, but will lead to nothing if it is not taken further. It must be made clear that the enthusiasm for such skills at board level is reflected in the practice of those responsible for recruiting staff.

There must be company policies to ensure that the high priority given to wide-ranging skills is not lost among the day-to-day problems of recruiting people to fill specific vacancies as they arise. Also, industry has to define more specifically the competencies that it needs, and should co-operate with educationalists in devising ways of assessing them.

Despite industry's vocal demand for personal skills, there is considerable evidence that many recruiters do not know how to identify or assess them. They resort to proxy-measures and recruit on the basis of academic success or the status of the institution—not on the assessment of personal skills.

Often, this may work well enough because good students from prestigious institutions are more likely than not to have acquired these capabilities. It does nothing, however, to raise the general standard of personal skills among graduates; nor does it encourage higher education to place greater emphasis on the cultivation of these skills.

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INTERVIEW

Cannons to the left and right

Nigel Andrews talks to Menahem Golan

MENAHEM GOLAN, founder of the Cannon group, the biggest film exhibitor in Britain and a leading force in film production worldwide, seems to be running out of time and money—but not of enthusiasm and pluck.

Three weeks ago, as Cannon disclosed an annual loss of $60m (£36m) it also admitted that its auditors were questioning "the company's ability to continue operations as a going concern." With the US Securities and Exchange Commission due to pronounce within the next few weeks on Cannon's accounting practices, and with a financial rescue package that involves two Italian investors now threatened by criminal proceedings in Naples against one of the "white knights," the writing seems to be on the wall.

There are plenty of jealous Britons—as well as short sellers on Wall Street—hoping that the meteoric rise of Menahem Golan and his partner Yoram Globus will soon be followed by an equally meteoric fall.

For UK cinema in recent years it has been a case of Cannon to the right of us, Cannon to the left. And a dark streak of xenophobia has coloured the views of normally rational critics and commentators, who feel Britain has become annexed by a foreign power determined to lower standards even as it tries to raise profits.

"Who are we? Bloody foreginers!" said Menahem Golan when I talked to him in Cannes as the reports of asset-stripping, studio sales and heavy losses during the last financial year were provoking a typically doughty fight-back from Cannon's chief.

"We ran into a climate of outright hostility when we first came to Britain. American Israelis—who the hell are we? Britain needed us, but only lately have people begun to appreciate what we've done. We made Elstree Studios live, we brought people back into the cinemas and we have put plans into action to promote new young British directors. As much as we are attacked, we have developed the skin of an elephant. Look, the showpiece British Pavilion here in Cannes, honest to God, I hate it, they didn't invite me there—I don't care. It cost £250,000. Instead of spending money on that, why not give it to young film-makers? But that's their choice. I am going to carry on putting money into British film and British cinemas."

Cannon's celluloid presence in Cannes this year showed that the company still has aspirations towards quality movie-making on an international level, even if its commercial prowess is showing signs of wear and tear.

"There are two different aspects," says Golan. "One is the financial situation of the company. The other is what I might call the artistic side. We have two films in competition out of three representing the United States. We have seven pictures in other special events. And we have over 40 films in Cannes altogether, including those in the market.

"This is the biggest, most prestigious event for cinema in the world! I'm very proud that we got to this point: Cannon started in '79 as a kind of semi-exploitation company, now we are working with great stars, great directors, great motion pictures."

PERSONAL FILE

1931 Born in Israel; family in film business

1963 Founds Noah films with cousin Yoram Globus

1979 Buys Cannon Films of the US

1982 Buys UK Classic cinema chain

1983 Cannon acquires Rank-Tuschinski group for Netherlands distribution

1986 Acquires Thorn EMI Screen Entertainment

With such a proud history of growth behind it, and with such continuing signs of resolve, how on earth did Cannon ever get into its current crisis? On top of its losses last year, the company has recently been forced to sell both the Screen Entertainment film library, formerly EMI's, and a half-share option on its European cinemas (to Warners).

In addition it has closed its video operations in the UK and is offering Elstree Studios for sale.

"Our main hurdle, everyone knows," says Golan, "is that a year ago we swallowed a company five times bigger than ours, which is EMI, and that is maybe like a bone in the throat. A Wall Street organisation committed to financing the deal didn't come through, and on December 15 we had to meet a $75m second payment to Alan Bond, who owned EMI before us. Well, it was difficult to come through that and Warners saved us. They gave us the money and in return they became partners in our circuit all over Europe."

That may keep Cannon's cinemas on a steady footing for the moment. But what about Cannon's production programme? Left, right and centre, Cannon's films have been incurring losses that would cause most Hollywood major studios to run to the liquidators.

"Losses were incurred, but, my friend," Golan insists, "Cannon today has $400m in sales contracts on our product. Since we operate on a system of third-party contract, we cannot show this as income. Until a film is delievered and paid for, you cannot account it. We have 47 films finished; we don't have to spend a dollar more on making them. All we have to do is sit tight and wait for the money to come in."

Golan valiantly defends even the tottering fortunes of mega-dollar Cannon movies like Sylvester Stallone's $40m Over the Top, which Golan, who directed it, says has so far made $60m worldwide. (But the return is worse than it seems. A film has to make two and a-half times its production budget — $100m for a $40m film — before it runs into profit.) Yet he admits that the coming year will see a considerably trimmed operation from the company.

"We are making less films this year than last, it's true; 25 films instead of 47. But 25 is still as many as Warners or Paramount or any of the Hollywood majors. And though we will be choosing our films carefully, we will still go for the top talent.

"We have signed Meryl Streep, perhaps the most prestigious star in the world, for a British movie, to be made in September: Evil Angel, a project we inherited from EMI. And we will keep our loyalty to new British talent. This coming summer we're planning a major motion picture called Falklands, the Story of 100 Days, with a first-time British director. I believe our commitment to the British film industry is safe, and to British cinemas.

Less secure is Cannon's commitment to big-budget international movie-making in British studios: the kind of mega-dollar investment that has seen them making Superman IV at Elstree during the last year. But Golan claims that outside forces beyond the company's control have compelled this withdrawal from the block-buster field.

"The British studios are not in the best shape in the world," he says. "All the studios, not just Elstree but Pinewood as well, and the others. The Governmnet doesn't help. I have a lot of reservations about the new tax laws against foreign artists who come to England—we have a lot of problems with that.

"I'm afraid next year we will not be able to achieve any film of the scale of Superman IV, which we just shot in England for $35m. That kind of money spent on one picture won't be able to happen again because the stars will be reluctant to come and work in England because of tax disincentives. The British Government must do more for the cinema. We at Cannon do all we can—we make the films, we employ the talent.

It is almost impossible, on meeting him, not to warm to this buccaneering, larger-than-life figure, who seems like an alien life-form in a British cinema scene that can often be cautious, grudging, coldblooded or unimaginative.

When challenges are being flung out, Golan invariably takes them up: as when a certain British-born Hollywood studio chief cast aspersions on the quality of Cannon's films and doubts on their capacity for survival.

"Let's name him: — Mr Puttnam!" cries Golan, giving a cry of relish somewhere between a squawk and a shriek. "He betrayed Britain and went to America. I didn't betray Britain, I *came* to Britain. We have a bet between us, Puttnam and I, to meet the Christmas after next for dinner to see who is working where.

"I'm sure I'll still be with Cannon and developing it in much better shape. He's with Colombia Pictures and I don't know what he'll be doing. But I'm not here to smear him. He's a great artist. I admire him. I think he has a big mouth, but that's another story. I never talked about him. He talks a lot about me. Why am I so important that he should spend time talking about me? All I can say is, I feel respect for him. And in our dinner a year and a half from now, maybe I'll become his friend. Maybe I'll even offer him a job.

"But as for us, our loyalty to Britain and its cinema will continue. Tyrone Guthrie—m teacher—remember, I was a student of the British Old Vic school, you know—Tyrone Guthrie used to say, the greatest, most dramatic experience one can have is in a stadium of 100,000 people sitting in a soccer match. Arsenal versus Liverpool, mabe. And all of a sudden the 100,000 people jump and cry "Goal!" This is the best theatre, the best drama there is. Which means the assembly place—theatre or cinema—will never cease. The collective arts need mass energy. You cannot laugh at a comedy in your bathroom. You need to be in a theatre with another hundred, another thousand people. That is going to stay, and we are committed to it."

THE ARTS

Architecture/Colin Amery

Filling a classical gap

German Architecture and the Classical Ideal, 1740-1840 by David Watkin and Tilman Mellinghoff (Thames and Hudson, 296 pps, £30) is by far the most interesting and important architectural book to be published this year. It fills a gap that anyone who has recently visited Germany feels acutely: until now there has been no inclusive account of the growth of the classical style during this 100 years of acute political change. The transformation of the states conglomerated into the Prussian nation and into the German Empire in 1871 had consequences that were architectural as well as political. To have compiled a book that is also, in its second part, a gazeteer of Neo-classical buildings, makes it doubly useful as a history and travelling companion.

Germany did not exist as a nation during the period covered by this book, but the territory that is covered is modern Germany — East and West. It is not possible to understand the development of the classicism of this period without an understanding of the German need for an architectural idealism to match the philosophical and political theories that were to lead to a united Germany. The authors in their early chapters explain well the intellectual preparation necessary for the advanced kind of Neo-classicism that was to flourish from Prussia to Bavaria, making it clear that there was a political, as well as an artistic, need for a new style.

Much of princely Germany was heavily reliant upon imported, mainly French ideas and indeed architects worked in a debased Louis XVI style, though in the north there was some lingering English Palladian influence. More could be said about the reaction to the richness of the indigenous Baroque in the early years of the 18th century, since the authors only touch on *how* the *rich soil of German Baroque* and Rococo nurtured the austere roots of Neo-classicism; but perhaps that is the subject for another book.

The key influence upon the two greatest architects of the period, Karl Friedrich Schinkel and Leo von Klenze, was one unbuilt monument. It is the leitmotiv of this book—the monument to Frederick the Great designed by Friedrich Gilly in 1797. A great Doric temple is raised above the room containing the sarcophagus of the dead hero. Only obelisks occupy the giant spaces around the shrine; lions spew water and a Graeco-Roman gateway topped by a quadriga, defines the boundary.

This wonderful project was never built. Its legendary glory was exaggerated by the early *death (aged 28) of* its designer. Friedrich Gilly, although young, had absorbed the feeling of Winckelmann and Goethe for the nobility of antique forms. His design for the great monument was to be an intensely important visual influence upon many architects, including Schinkel: the extravagant scale, the sublime simplicity of its classicism and the powerful draughtsmanship with which his idea was presented made Gilly the seminal influence on this period.

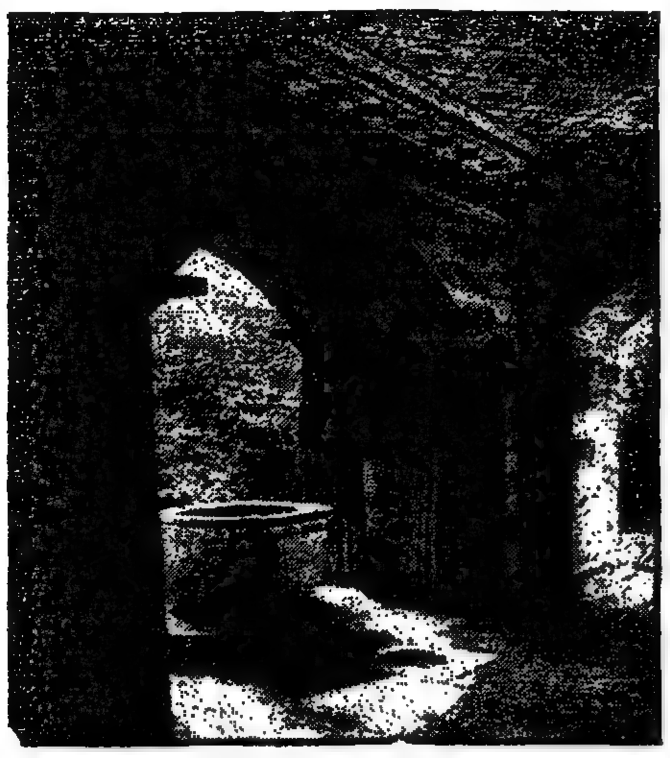
In its treatment of the search for a national style, this book is thorough yet concise. Franco-Prussian is the name suggested for the school that was to give birth to Schinkel, but equally important is the direct German response to things classical both Greek and Roman. Goethe's Italian journey (1786-87) was typical in that it encouraged a poetic interpretation of classical remains.

The accounts of two strong patrons, the Crown Prince Ludwig of Bavaria and his brother-in-law Friedrich Wilhelm IV of Prussia, led to the work of the heroes of this book: Leo von Klenze in Bavaria and Schinkel in Prussia. While there is no subsitute for seeing the work of these two *protean* geniuses in the flesh, this book fills some gaps. It is surprising that the vast literature on Schinkel is still mostly in German (but excellent news that his fascinating diaries, that include his journey to England, are to be translated). There is still a need for a full blooded book on von Klenze. The transformation of Munich into a monumental city inspired by Greece and the early *Italian* Renaissance is well told here. Schinkel's achievement was to have fused Greek, Gothic and Italian elements and produced buildings that are entirely original.

Today the great glory of Schinkel can best be appreciated in Potsdam (although a trip to Poland would be worthwhile) and this book helps to chart the vast number of buildings there. Tegel, Glienicke, Babelsberg are all visible from Potsdam and a few days determined walking can reveal beauties that few casual visitors to Sansouci ever realise.

I was glad to see in the gazeteer the quite marvellous Pompeian house that I last saw in a thuderstorm at Aschaffenberg designed by Gartner. It was still being restored a couple *of years ago.*

There are few experiences more agreeable than wandering around Neo-classical Germany and this book, published today, is the perfect companion. The gazeteer is very useful, although I do not think I am carping to say that it is a bit thin on East Germany. The really serious omission is a biography of each renewned architect. But now the hidden delights of certain cities are revealed for the first time and from Aachen to Wurzburg there are Neo-classical pleasures of a quality never imagined.



Germany's embrace of the classical ideal is seen in the undercroft of this Roman House in Weimar by Johann August Arens

Philharmonia/Festival Hall

Andrew Clements

Colin Davis's appearances with London orchestras have been confined to the LSO for many years, but on Thursday at the Festival Hall he took charge of the Philharmonia. Whether this betokens a permanent change of allegiance I don't know, but it was refreshing to hear him handling a rather different orchestral sound and, dare one say it, able to rely on an orchestra with a more positive attitude to its task than usual.

Davis and Vaughan Williams is another unfamiliar association, but one which in the Sixth Symphony at least suggested a very positive affinity. While one can imagine some parts of the canon that would not suit his *gifts so precisely—the Third* and Fifth for example—the Sixth is dominated by a propulsive rhythmic energy for three quarters of its span that Davis is able to realise with thrilling exactitude: the opening movement was launched with a machine-like massiveness, and only a token slackening of tension for the luscious statement of the big tune; the Moderato worked to a shattering climax, its accumulated tension then lithely released in the scherzo.

The Epilogue—characterised in Michael Kennedy's programme not as possessing an air of tragic desolation — can sound more unwordly and hopeless than it did here, but the assurance was exemplary. Kennedy suggested the Sixth as Vaughan Williams' personal retrospective, in which stylistic debts were assiduously honoured. One possible and unexpected influence that apparently surfaced in Davis's account was Shostakovich, especially obvious in portions of the sherzo. A symphony written in the immediate aftermath of World War 2 could very easily, perhaps subliminally, have absorbed Shostakovich's Seventh, which was played to death in that period.

Earlier, the more predictable excitement of Radu Lupu's Brahams First Piano Concerto had somehow failed to materialise.

Ligeti/Almeida

Dominic Gill

One of the most remarkable virtues of the Almeida Festival's annual cornucopia of contemporary music is its comprehensiveness. Where another *festival might* organise a single concert and call it a "theme," the Almeida offers a thoughtful and comprehensive overview, embracing as many varied aspects of the featured composer as possible, over a period of 10 days or more. The festival's examination of the music of the Hungarian composer György Ligeti, under the portmanteau subtitle of "A Journey through Vienna, began last week, continues this week, and reaches its climax with the London premiere of Ligeti's new piano concerto next Monday.

The first two Ligeti programmes last week, including a Ligeti Event at the Union Chapel on Friday some three hours long, were retrospectives which offered the newcomer, as well as those already familiar with the composer's work, a solid historical context from which to approach, and in which to place, the more recent compositions.

Ligeti's first compositions after leaving Hungary in 1956 to work with Eimert and Stockhausen in the electronic music *studio in Cologne, such as Apparitions* (1960) and *Atmospheres* (1961) for full orchestra, were brilliant essays in *Klangfarbenkomposition*—massive sound-canvases, elaborate webs of colour, constantly shifting within their own limits, characterised by clusters of notes played against a background of "micropolyphony." The climax of this line of development, and perhaps still the most widely known, is the *Requiem* of 1963-65 scored for 20-part chorus, the first movement of which was used to memorable effect—though to Ligeti's chagrin without his permission—by Stanley Kubrick in the soundtrack to his film *2001*.

But since the mid-1960s, after a brief flirtation with John Cage and Fluxus (the "anti-operas" *Adventures* and *Nouvelles adventures*, and the exuberant *Poeme symphonique* for 100 metronomes), there was a gradual but definite shift away from the use of the massive web-form technique he had invented towards a music with interweaving lines that were more separate and distinct, and towards more explicitly traditional and romantic forms and textures—for example, in the exquisite little motet for 16-part chorus *Lux Aeterna* (1966), the second sring quartet (1968), and *Ramifications* and *Melodien* respectively for string ensemble and small orchestra (1968 and 1971).

For much of the 1970s, illness intervened. But the major production of that decade was the opera *Le Grand Macabre*, produced by Stockholm in 1978 and four years later by ENO in London: a score of remarkable richness and fantasy, which also signalled a number of significant new departures—notably a new-found lyricism, a delicate use of pastiche, and a revival of interest in repetitive and *leitmotif* techniques.

The Almeida programme of Ligeti piano music was a disappointment and a refreshment. The solo piano playing of the young French pianist Louise Sibourd was disappointing: capable *enough in a* studentish way, but tentative, monochrome, rhythmically unstable. We have thus still to gain a fully-rounded impression of Ligeti's six recent (1985) keyboard Etudes in performance — although from the score, and from Mlle Sibourd's working model, we can appreciate their colour, and houmour, and their bold invention.

The account of the two-piano triptych *Monument-Selbstportrait-Bewegung*, on the other hand, by the duo of Keith Williams and Clive Williamson was a delight: bright-toned, powerful, and closely worked. *Monument* is Ligeti's major work between *Melodien* and the opera, and Williams-Williamson performance is far and away the most impressive I've heard. Someone should consider a recording.

Die Massnahme/Almeida Festival

David Murray

Scarcely heard since the 1930s, *Die Massnahme* (The Decision) is a didactic contata-play by Brecht with music by Hanns Eisler. None of the Almeida discoveries and rediscoveries could have been so wryly appropriate for election night: intended as Leninist edification, it was soon disowned by the Communists and banned by the Nazis. Its moral —the long-term justice of promoting the party line at the cost of some innocent but luckless individuals—must nonetheless find a response in the hearts of the old left and of dry Tories alike, since *Die Massnahme* pushes no particular economic theory.

Just before the 1930 *Massnahme*, Brecht had collaborated with Kurt Weill on *Der Jasager*, a "school opera" designed for performance and discussion by children. Based on an Arthur Waley translation of a Noh play, it tells of a boy who insists on joining a school expedition over difficult mountains, though aware that he's unwell. When he collapses, he agrees with the group decision that it's better to toss him off the mountain (tenderly) than to abandon the journey. Weill's ritually simple, poignant music makes the tale unforeseeably distressing. *Die Massnahme* was conceived as an essentially similar but grown-up *Lehrstück*; this time, however, the music eschews pathos and sings the justice—severe but humane—of the long-range party view. It is obvious why Weill ended in New York, and Eisler in East Germany.

The heroes of the grown-up story are a Muscovite team sent into Manchuria as Communist agitators, the anti-hero a well-meaning young Communist local whom they take aboard. His responses to patent injustice are too sentimental and injudiciously quick; eventually he endangers the whole team, and at the crunch they get him to agree to their shooting him and dumping him in a lime-pit. The chorus massively approves their decision. Unlike the *Jasager* schoolboy, the Young Comrade is enacted alienation-style by a speaking actor, like nearly all the other roles; the one solo song (done with wild *élan* by Philip Doghan) is for the statutory evil capitalist.

Eisler's brief was to supply stern, cogently simple music for the unsentimentally right (*ie*, left) side. With stark instrumentation — only brass, piano and percussion—it functions impeccably, fixing a granitic tone, plain and pungent, without musical complexity that might invite merely aesthetic attention. Robert Ziegler conducted a properly hard-edged performance by the Matrix Ensemble and the Pro Musica Chorus, though the wet acoustics of the Union Chapel lost us most of the chorus's words. Stephen Unwin deployed his actors (Stephen Dillon, Tilda Swinton and Adam Robertson) and one huge hawser (for barge-drawing by coolies) with perfect cool, allowing the strength of the message to speak for itself

Dale Duesing (left) Isobel Buchanan and Gabriel Fontana in Cosi fan tutte

Così fan tutte/Glyndebourne

David Murray

The first and most important thing to report about this Glyndebourne revival—though Peter Hall has again supervised his fine nine-year-old production with interesting new singers and John Bury's canny designs *—is that Lothar Zagrosek's* realisation of th escore is a revelation tha no Mozart-lover should miss. People who just like opera, as well as people who come on company gift-allocations, can be assured that this *Così* makes a delightful evening; serious Mozarteans should know that Zagrosek's *Così* is pierced by new insights, mildly controversial at worst and faithfully delivered by the London Philharmonic in best form. It is *absolutely* worth ringing the Glyndebourne office daily to get hold of returned seats: if *necessary, pawn something.*

First, Peter Hall's new cast. It is dominated by Claudio Desderi's potently sinister Don Alfonso, the "cynical philosopher" who engineers the frivolous action. Far from the usual benevolently mischievous oldster, Desderi makes it clear from the start that for him *something private and desperate* turns on his bet that the male youngsters' sweethearts will switch allegiances with disillusioning ease. Misogynist he isn't, since he plays sexy games with Despina (the delicious Lillian Watson, tough and knowing and plausibly Neapolitan) throughout; but as the intrigue get underway, he delivers "Nel mare solca" as blackly and bitterly as any Hagen in the *Ring*.

The bemused ladies are Gabriele Fontana and Isobel Buchanan, charmingly vague in mob-caps. Initially the Fontana soprano sounded as if it might prove unstable, but she rose to a "Per pietà" of heart-felt dignity; Miss Buchanan was artfully vaporous in "Smanie implacabile," and became a willing victim at once. Both the swains are American, Frank Lopardo as a Ferrando of *refined style,* and Dale Duesing's down-to-earth Guglielmo comically torn between pursuing the game and keeping the right girl. Hall's expert direction allows the action to become dangerously sincere at is proceeds, just as it should.

We know Zagrosek chiefly as a scrupulous exponent of modern scores, and his *Così* is prepared as if it were the latest, most intricate Boulez. All the passages that require extreme *brio* get it, but he allows many others to be loving and leisurely —quite unconventional—for the sake of exposing innumerable exquisite details

Il barbiere di Siviglia/Covent Garden

Rodney Milnes

There is still plenty of life in Michael Hampe's thoroughly traditional and comparatively restrained production of the *Barber*, revived at last night's Midland Bank Prom at the *Garden. Restrained,* that is, until the second act, which has grown perceptibly broader. Still, no one actually loses their trousers, and yesterday of all days the odd laugh was welcome.

There were also smiles of pleasure a-plenty thanks to the playing under that outstanding Rossini stylist Gabriele Ferro: how the music danced and glittered under his understanding and affectionate beat! There was also the occasional grimace, in that the orchestra seemed to have come to no firm decision as to whether to tune to 19th or 20th century pitch. At times it was as though the Ives rather than the Zedda edition were being used.

The bouyantly Italianate lead from the pit was seconded by three more of Rossini's compatriots—it does make a difference. There may be *mezzos* who voice the coloratura divisions in Rosina's music more precisely, but I know of none who do so with as much wit and musicianship as *Lucia Valentini Terrani*, and her smokily substantial lower register is used to maximum comic effect. One ill-advised top B at the end of "Una voce" apart, this was an impeccably stylish interpretation, alone worth the price of a ticket.

Leo Nucci's street-wise Figaro with its toothy Tommy Steele grin remains a formidable impersonation, but it was a little sad to hear a singer who has moved on to verismo and heroic Verdi roles skating so casually over the music. When he first sang the role in the Hampe production in Edinburgh, it seemed as though a Rossini baritone of note had *arrived. I do hope he hasn't* already left. Rounding off the Italian trio was Domenico Trimarchi as Bartolo: not a great deal of tone left, but an effortless sense of buffo style is still there.

Horszowski/Wigmore Hall

Max Loppert

Mieczyslaw Horszowski will be celebrating his 95th birthday later this month; last night he returned to the Wigmore Hall, where, 81 years ago, at the age of 14, he first played in London (it was, of course, called the Steinway Hall then).

Perhaps the most glorious thing about this glorious old man, this pianistic miracle, is his ability to make the listener lose interest in the significance of the relevant years, dates, and numbers (extraordinary though these obviously are). After a while one *simply* sweeps aside the attendant circumstances — the *éloge des vieux* sentimentality, and also the excuses ready-made for any old pianist's technical fallibility — and focuses on the special beauties and richness of his performance.

The playing was not flawless: odd wrong notes and stumbles in passagework could be noted Horszowski was on altogether stronger form than when I last heard him, at Aldeburgh three years ago). The important issue is that the executive mechanism is essentially, wonderfully, sound. When Horszowski *set his hands on the key*board at the opening of the Bach A minor Organ Prelude and Fugue (in Liszt's transcription), the body of the sonority that he drew had an immediate, personal quality — it might be characterised, imprecisely, as full, deep, round, tempered inimitably by warmth — that shone like a beam of sunlight throughout the whole programme.

It is the complete conception of sound, a characteristic inseparable from the sense of the music-making, that marks Horszowski as a musician from another, wiser age. His style of (though it seemed to me that pedal technique, his alignment of hands, *everything* about his touch denotes spaciousness, a broadly embracing viewpoint; *everything breathes. In* the Beethoven A major Sonata, Op 2 no 2, tempos were moderate only in the sense that all the ideas had room to register

But the main marvels were reserved for the second half. Schumann's *Kinderscenen,* taken firmly, even briskly, combined maturity and child-like wonder, narrative fantasy and lyrical breadth

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

June 12—June 18

Music

PARIS

Ernest Blanc, baritone, Maryse Castet, soprano, Anne-Marie Fontaine, piano: Bizet, Mozart, Rossini, Mozetti (Mon 8.30pm). TMP-Châtelet (4233 4444).

Ensemble Orchestral de Paris conducted by Armin Jordan, Maurice Bourgue, oboe, Jeffrey Grice, piano, Christian Crenne, violin, Paul Boufil, cello: Richard Strauss (Mon). Salle Gaveau (4561 0630).

Vladimir Ashkenazy, piano (Tue). Salle Pleyel (4561 0630).

Paul Kuentz choir and orchestra: Vivaldi-Gloria, Bach-Magnificat (Tue). Saint-Séverin church (4563 7935).

Nouvel Orchestre Philharmonique conducted by Gilbert Amy: Berio, Jolas, Penderecki, Webern (Wed). Radio France, Grand Auditorium (4230 1516).

Coproduction of Orchestre de Paris and Ensemble Intercontemporain conducted by Pierre Boulez, BBC Singers: Bartok, Berio (Wed). Salle Pleyel (4563 0796).

Groupe Vocal de France: Villa Lobos centenary celebrations (Thur, 8.30pm) Auditorium des Halles (4563 8673).

NETHERLANDS

Amsterdam, De IJsbreker (Weesperzijde 23). Piano recital by Ursula Oppens of works by modern American composers, including Davis, Adams, Nancarrow and Bley (Wed). (68 18 05).

VIENNA

Chamber Orchestra of Europe conducted by Claudio Abbado with Rudolf Serkin, piano. Mozart, Schubert. Konzerthaus (Mon, Wed).

Vienna Symphony Orchestra conducted by Gerd Albrecht. Bruckner. Musikverein (Tue).

Alban Berg Quartet with Elisabeth Leonskaja, piano, Beethoven, Brahms. Konzerthaus Mozart Saal (Thur).

Tokyo Hattori, violin, Riki Ohno, piano. Debussy, Mozart, Franck. Musikverein Brahms Saal (Thur)

NEW YORK

Juilliard Concerts (IBM Gallery): Beth Sussman piano recital of music by romantic and contemporary composers. (Wed, 12.30). 56th & Madison.

TOKYO

Ju Hee Suh, piano. Bach, Beethoven, Chopin, Franck, Liszt. Hitomi Memorial Hall, Showa Women's College, Sangenjaya (Thur).

Canadian Brass. Vivaldi, Gabrielli, Bach. Suntory Hall (Mon) (505 1001).

Traditional Japanese music: Kosen Itoh vocal and shamisen recital of jiuta, the Edo-period chamber music popular in Kyoto and Osaka. English programme notes. Tokyo Shoken Hall. No need to book.

LONDON

Royal Philharmonic Orchestra conducted by André Previn with Anne-Sophie Mutter, violin. Beethoven and Prokofiev. Royal Festival Hall (Tue). (928 3191).

Philharmonia Orchestra conducted by Francesco d'Avalos with Anne Evans, soprano. Wagner. Barbican Hall (Tue). (638 8891).

Royal Philharmonic Orchestra conducted by André Previn with Anne-Sophie Mutter, violin. Beethoven. Royal Festival Hall (Wed).

Vladimir Ashkenazy, piano. Schubert and Schumann. Royal Festival Hall (Thur).

London Symphony Orchestra conducted by Michael Tilson Thomas with Michel Beroff, piano. Debussy, Milhaud, Gershwin and Ravel. Barbican Hall (Thur).

Saleroom/Susan Moore

New kind of mystery

Evening auctions are rapidly providing Londoners with a new kind of entertainment. As an hour or two of suspense and *mystery (who was the telephone bidder?)* they rival a good West End whodunit. Lights go up again at 7 pm at Christie's on Wednesday as they present what is billed as their best furniture and works of art sale yet. For an auction house with 221 years in the business, it is *quite a claim.*

Star turn on the programme is a dazzling polychrome boulle marquetry bureau inlaid with brass, mother of pearl, and horn to forme chinoiserie figures, birds and foliage. Each scene is bordered by a blue stained shell imitating lapis lazuli. The main panel, which forms the opening desk flaps, depicts a landscape with a mandarin carried in a palanquin followed by attendants visiting a menagerie crowded with flamingos, peacocks and parrots.

Dating to about 1720 and maker unknown (but thought to be French), it was probably acquired in Paris by Earl Whitworth in 1803/03 and has been at Knole since his marriage to the widow of the third Duke of Dorset. Only one other similar piece is known, in the Lopez-Willshaw collection. It is expected to realise well in excess of £500,000.

An exceptionally grand amboyna secretaire bearing the stamp of Adam Weisweiler and dating to the 1780s is also expected to turn the half million mark. Its full flap is mounted with a Sevres porcelain plaque painted with a basket of flowers, *its draw with Wedgwood* plaque. Freestanding ormolu caryatids frame the body. A figure of £300,000 to £400,000 is anticipated for another Louis XVI porcelain and ormolu mounted commode. Made in satinwood by Godefroy Dester it is sent to auction by the Earl of Plymouth.

In fierce competition for the spotlight is a 16th century 15¼ in high gilt bronze statuette, the only signed example of Giambologna's Mars. It is one of only a dozen small signed bronzes and is the most important work by the Mannerist artist ever to be sold at auction. The slightly restored bronze comes from a private American collection an dis also expected to fetch more than £500,000.

Sixteenth century Italy is also well represented in Sotheby's sale of the Dr Michel Gaud collection of Old Master drawings in Monaco on Saturday. It includes sheets by Agostino Carracci (a Last Supper estimated at FFr 800,000 (£80,000) to FFr 1,200,000) Branzino and the brothers Zuccaro.

Formed only in the last 20 years, the collection is remarkable for its consistent quality, although the drawings tend to be of greater historical importance and rarity than of great beauty.

FINANCIAL TIMES
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Monday June 15 1987

Getting back to business

MRS THATCHER'S new Cabinet looks like an interim affair, consolidating much of what had gone before while leaving the way open for more radical changes to come. And there is a lot to be said for not having too many excitements in one week. After securing her third term, the Prime Minister needs to ensure that she can take an immediate grip on it—unlike the experience of 1983 when the Government seemed uncertain what to do with its victory. This time the approach looks altogether more business-like.

Thus many of the senior offices are unchanged. Mr Nigel Lawson remains Chancellor of the Exchequer, and deserves to do so. Sir Geoffrey Howe remains Foreign Secretary and Mr Douglas Hurd stays at the Home Office, although the two men would have been interchangeable and Sir Geoffrey must be relieved not to have been sent to the House of Lords where he may yet finish his working days as Lord Chancellor.

Two other no change appointments also make sense. It would have suggested trouble in the Tory camp if Mrs Thatcher had not retained Mr Kenneth Baker as Secretary of State for Education after all the emphasis given to the subject in the election manifesto. Equally, the Prime Minister was almost obliged to keep Mr Nicholas Ridley at the Department of Environment, at which there is a great deal of work still to be done.

Potential rebels

Where there have been changes, they are a mixture of the mildly imaginative and the cautious. It was perhaps a risk to bring back Mr Cecil Parkinson, given the tendency of headlines to explode around him, but he has gone only to the Department of Energy. Mrs Thatcher likes him; he is capable of giving independent advice and it will now be seen whether he can work his way further back up the ladder: for instance, by his handling of the privatisation of electricity supplies.

Mr Peter Walker's move to be Secretary of State for Wales is the second best thing that she could have done in the circumstances of having no obvious candidate: a bolder move would have been to have brought back Mr Michael Heseltine, who has slightly more Welsh connections. But the two men are of a similar frame of mind: both able administrators and well suited to a relatively autonomous department. Wales is the right place.

Besides, the Prime Minister could scarcely have risked having two articulate potential rebels on the back benches: Mr Walker and Mr John Biffen, whose performance as Leader of the House will be a hard act for Mr John Wakeham, the former Chief Whip, to follow. She has gone for the step by step approach.

The demotion of Mr Paul Channon from Secretary of State for Trade and Industry to Transport, an office where most of the key decisions have already been taken, looks like sentimentality. Mrs Thatcher is easing him out gently.

Equally, the appointment of Sir Michael Havers, the former Attorney-General, to the Lord Chancellorship has interim written all over it. He has not recently been well: his lines of communication to the Government—and vice-versa—have not always been good, and the only conclusion to be drawn is that someone else is waiting in the wings: a reluctant Sir Geoffrey perhaps?

Mr Norman Tebbit is out of the Cabinet, at his own request, but remains Party chairman: a position that is bound to give rise to speculation about his next moves. The most intriguing change, however, is at Trade and Industry where the joint team of Lord Young and Mr Kenneth Clarke have moved across from Employment, taking some of their old tasks with them, including work on the inner cities.

Mrs Thatcher said at the start of the election campaign that changes in the machinery of government would come later, probably after the next wave of privatisation. The DTI will be almost certainly at the centre of any such reforms, for there is already a problem of how to reconcile its regulatory role with the part that it plays in industrial policy.

If considered, longer-term changes really are under way, the interim nature of the weekend moves is entirely excusable. But the "if" matters.

A freer market in telecoms

A PERENNIAL weakness of Europe's efforts to improve its technological performance, both at European Community and national level, has been to devote too much attention to the interests of supplier industries and not enough to their customers. Too often, building big industrial structures has taken precedence over creating vigorous markets.

The European Commission's recent green paper on telecommunications is a welcome attempt to redress the balance in a sector which is vital to Europe's economic future, but where innovation and enterprise have for too long been stifled by rigid monopoly practices.

The paper's central precept is that Europe can harness the full potential of the new technologies only by encouraging freer competition. It calls for the complete liberalisation of the supply of most terminal equipment and value added services and of some satellite communications. It would also strip telecommunications administrations of their regulatory and approval authority in these fields and prohibit anti-competitive cross-subsidies in competitive markets.

Limited part

The commission's approach to unifying the community market wisely avoids prescribing a single policy "model" to be followed by every country. Harmonisation would be limited to those areas—such as standards, frequencies and basic tariff principles—where national differences would perpetuate serious obstacles to intra-community trade.

The logic of the commission's proposals is hard to fault, although it remains to be seen how readily community governments will endorse them. While telecommunications reform is being debated in almost every country, only Britain has so far taken action. Some other governments still seem reluctant to confront opposition to policy changes from powerful vested interests, not least within the telecommunications administrations themselves.

However, the commission has hinted that, if necessary, it will use its Rome Treaty powers to prod the process along. After hesitating for many years to subject telecommunications to the full rigours of competition policy, it now appears much more confident about instituting legal actions in this area.

In view of the commission's new mood of activism, it seems a pity that it did not go still further in laying out its blueprint for change. Sensible as its proposals are, the products and services which they cover are a relatively limited part of the overall telecommunications industry.

The green paper would leave intact the traditional monopoly which community telecommunications administrations enjoy over voice telephony, the source of as much as 90 per cent of their revenues. Yet the available evidence suggests that introduction of competition here would yield important gains in efficiency.

In the US, the threat of losing voice traffic to new competitors has been probably the main factor behind the determined actions taken by American Telephone and Telegraph and its former Bell Telephone companies to cut costs and sharpen up their marketing. Though competition in the UK is still limited to a duopoly between British Telecom and Mercury, the battle between them has been fiercest in the market for voice telephony, to the considerable advantage of business customers.

A consequence of competition in the network is to put pressure on monopoly pricing structures, which in most countries have long relied on large profits from long-distance traffic to subsidise loss-making local calls. As UK subscribers have discovered, the effect is to increase residential bills faster than those of large business users.

Inevitably, such tariff realignment is politically contentious. That is no doubt one of the reasons why the commission stopped short of recommending competition in the voice network. However, in the longer term, even diehard monopolies are likely to find it increasingly difficult to sustain tariff systems which amount to a hidden tax on businesses.

Without direct competition they will have little incentive to cut their costs and hence lighten the overall burden of tariff realignment on their customers. Even though the commission is not yet sufficiently sure of its political ground to call for competition in voice telephony, the issue will have to be confronted before too long if the community is to have a truly efficient telecommunications market.

Ian Davidson bids farewell to the Foreign Affairs column after eight years

My life with (among others) Mr Reagan

SOONER or later, all things come to an end, and sooner or later has arrived for this column. After nearly eight years and perhaps a third of a million words, it has run out of space and out of time, and is closing down.

I had been thinking of just slipping out the back door, but no. They have asked me to write a valedictory. It is, I suppose, an honour, but a two-edged honour; a bit like the honour of being allowed a few words before the headsman raises his axe.

The difficulty with a valedictory, I now see, as my whole life flashes across a word-processor screen, is its portentous isolation. Your weekly column is a curious beast from an existential point of view: on the one hand, it is a series of self-contained slugs of light entertainment, each one existing only now; on the other it is a continuum. But in both modes, there is always a chance to get it right next time, trotting along beside events, notebook in hand, making adjustments while making jokes.

A valedictory is a different bowl of coddled eggs: no reprieve, no rectification, no recantation. And jokes? That's a tough one.

Needless to say, I regret this *terminal* event. To have a weekly column to comment on the world at large is not just a rare privilege, unique (so far as I am aware) in the British press. It *is* an addiction, and going cold turkey will be painful. On the other hand, nobody has more than a handful of ideas: it would probably be unreasonable to expect more than half-a-dozen in an entire lifetime. After 200-plus articles, the element of repetition may start to irk.

Moreover, if it is true that the world marks off its political calendar by the cycle of presidential elections in the US, eight years (just under) is a pretty good time to sign off, not least because events seem to be coming round full circle. Iran, for example, has been a permanent thorn in America's side. In 1979, after the humiliating debacle of the Desert One rescue mission, Jimmy Carter was being slowly destroyed by America's miserable impotence to do anything about the Iranian hostage crisis. Today, Ronald Reagan has, perhaps absent-mindedly, impaled himself on a different kind of Iranian hostage crisis.

American missiles in Europe have been another saga which seems to be coming out where it went in. In 1979, at the urging of Helmut Schmidt and other Europeans, but for reasons that were wholly confused, Nato adopted its "twin-track" policy on new Euro-missiles: to deploy them if the Russians would not negotiate an arms control deal. Today, after untold sweat and grief, it looks like the Russians are forcing us to accept the arms control deal we demanded in 1981 — overriding the extreme reluctance of Helmut Kohl and other Europeans.

And so it goes. Russia's nasty little war of occupation in Afghanistan goes on and on, paralleled by the only slightly younger war between Iran and Iraq. The Lebanese spiral of violence and disintegration gathers momentum, and Israel has the bare-faced gall to celebrate 20 years of conquest, as if it knew what to do with the occupied territory. Truly, there are some situations so interminable and so apparently irredeemable that it is repugnant even to mention them.

But the dominant element these past eight years has been Ronald Reagan. Of course, US presidents can hardly fail to be powerful figures on the world scene, given the strength and the role of the American superpower they head. But President Reagan is special: he has probably caused more damage to the European-American relationship in the Atlantic Alliance than any of his predecessors. What is more, he probably does not even realise it.

The domination of the superpower relationship

No recent president has come to office so committed to ideological hatred of the Soviet Union, so hostile to arms control, so apparently confident that military might would provide answers to political problems. As the years have passed, the rhetoric has softened. What has happened to the policy remains a mystery.

On the one hand, he has pretended to offer the world not one, but two strategic revolutions: first with his Star Wars dream in 1983, then with last year's Reykjavik blueprint of a virtually nuclear-free world. These revolutions have several drawbacks: they are reckless in conception, they are not negotiable with the Soviet Union, and they are unattainable in operational terms, at least within any time frame relevant to political decision-making. Remarkably, President Reagan remains committed to both of them, even though they are mutually contradictory.

For practical purposes, America's allies may take limited comfort from the belief that President Reagan probably cannot now do anything irrevocable to put either revolution into effect. They can only be alarmed that an American President was blithely prepared to embrace both of them on the basis of the scantiest consideration, and without the slightest consultation with his European allies; that is a precedent which must leave a durable mark.

On the other hand, his dreams of strategic revolution have somehow managed to co-exist with a systematic policy of undermining the existing corpus of arms control: first the SALT II limits on strategic nuclear weapons, then the Anti-Ballistic Missile Treaty. If you add in the episode of the Polish pipeline sanctions, the bombing of Libya and the Irangate scandal, it adds up to a lamentable catalogue which cannot *fail* to shake the confidence of European governments.

And yet there are at least three serious compensations for this dire display of all that can be least admirable about the American political system. Two of them are the direct if inadvertent consequences of President Reagan's rhetorical recklessness: the sceptical re-examination of the function of nuclear weapons, and the belated revival of Europe's interest in its own security. The third is the Gorbachev transformation, which may make it possible for the first two to take place in comparative safety.

As a result, this is a peculiarly fascinating moment on the international scene. It is even conceivable, it seems to me, that we may be reaching a turning point in geopolitical relations which could mark the beginning of a new phase in the post-war era.

Whether this will turn out to be good for Britain, for Europe, for the West, will depend on fateful choices yet to come, as well as on the legacy of fateful choices embedded in history. But either way I have the strongest sense that we may be standing on the threshold of a period of change and movement unlike anything we have seen for 40 years. Naturally, these four decades seemed turbulent enough at the time; but with hindsight, the main components in the international constellation seem to have been extraordinarily stable, if not actually set in concrete.

If the central axis of international relations is the East-West confrontation, then it is hard to deny the domination of the superpower relationship and the essential immobility of that confrontation ever since the war.

There have been numerous mini-convulsions in Eastern Europe, there have been several crises over Berlin, and the superpowers have jockeyed for power and position in the Third World.

Flashback to 1979: demonstrators on the roof of the US embassy in Tehran

But the net result of all these alarms and excursions was nugatory: neither side gained any significant advantage in the confrontation, neither side solved its structural internal problems, and the stresses caused by these structural problems continued to generate mini-crises.

With the detente of the early 1970s (the German treaties, arms control and the Helsinki process), the crises became rarer but they did not disappear —witness Poland in 1980-81— and they did not prompt any significant change.

Mrs Thatcher says that nuclear weapons have kept the peace all these years, and she is not alone in this view. It may even be true that, in the past, fear of nuclear devastation deterred both superpowers from living up to their ideological commitment to irreconcilable *antagonism.*

But the argument can be turned round: if nuclear weapons have prevented war in Europe, they may also have intensified the antagonism *betwen East and West* because the destructive threat was so great and the search for a usable nuclear logic so imperative. It now looks as if both elements in this equation — *nuclear logic* and the nature of the antagonism — are starting to evolve in unfamiliar ways, with the result that Mrs Thatcher's formulation is increasingly impoverished as a political guide to action.

It is not an accident, I believe, that traditional views of both these elements are starting to be questioned together. What has happened to nuclear logic is that the debates inadvertently detonated by President Reagan's excesses have made these weapons seem more alarming and more unusable with every passing year; the first effect of this is to undermine the credibility of Nato's reliance on the first use of nuclear weapons, but the second effect *is vastly to increase the deterrence* facstor.

The implications can be read two ways: either that Europe is more vulnerable to Soviet aggression, or that much less nuclear weaponry is needed for effective deterrence. The first makes sense if you believe the Russians have magic solutions to nuclear problems the West cannot solve; the second makes sense if you think that it forces the Russians to look for political solutions to their political problems with the West, and with Eastern Europe as well.

Both these elements are speculative: the nuclear dilemma is in our heads, the Gorbachev factor is in the heads of the Russians. The third element—the revival of Europe's interest in *its own* security—seems to me less debatable. The resuscitation of Western European Union was manifestly the direct consequence of the Euromissile crisis, Star Wars and Reagan rhetoric; the decision of France to rearrange its defence policy in more European terms and to break a taboo of 30 years by opening talks with Britain on nuclear matters, were the direct results of successive Reagan shocks, culminating with the Reykjavik summit.

How far this process will go *is another* question; but the Euromissile debate in Germany has released a very interesting straw in the wind. Traditionally, Germany has been pulled between two temptations: total *allegiance* to the US in Nato, on the one hand, or neutralism and reunification, on the other. Gaullist attempts to lure the Germans into a subservient dependence on France got nowhere, because it promised to be neither a credible nor an agreeable position.

But earlier this month a different gong was sounded. When *Helmut Kohl* finally gave his reluctant endorsement to the zero option for Euro-missiles, he linked it to a call for closer defence links with France. If the Americans start to look less reliable, because they are denuclearising Europe, and the French start to look more credible *and more European,* then perhaps the Germans can start to feel more European. Maybe.

Paris should be a good place to watch out for the answers.

Ian Davidson will take up his post as Paris Correspondent shortly.

Men and Matters

Something to come home to

Most Germans are still talking over the motives behind the intrepid Ascension Day flight to Red Square last month by Mathias Rust, the 19-year-old amateur pilot from Schleswig Holstein, whose exploit resulted in the sacking of the Soviet Defence Minister.

But while Rust sits out what could be a long wait in a Soviet prison, he has provided the press back home with a chance for sensational coverage unmatched since the coming to fame of the tennis wonder boy, Boris Becker.

Rust's parents, who have been besieged by reporters in their modest flat in the small north German town of Wedel, have signed an exclusive contract with the Hamburg magazine, Stern.

Rust, by all accounts a shy, intense young man known to his classmates as "Professor Rusty," because of his studiousness, seems to have carried out the daredevil Helsinki-Moscow flight to win support for world peace rather than for personal profit. His parents have told the world that he wanted to speak to Gorbachev—and have denied that he made the flight to impress a girl friend, a story put around by one of Stern's competitors.

All the same, West German entrepreneurs latching on to the new, but somewhat unlikely-looking youth hero are doing their best to make Rust's trip a moneyspinner. T-shirts denoting Red Square as a new international airport have been selling well at DM 15 each. A Hamburg record company has brought out a pop song, Fly to Moscow, dedicated to the flight.

Now all that is needed is some nimble diplomatic intervention from German President Richard von Weizsaecker, who is making a state visit to the Soviet Union next month—and Rust might actually get a chance of coming home to share in the rewards.

"Yes—I know what it is but how did it get on our side of the wall?"

Wogel's ordeal

Hans-Jochen Wogel, the owlish and scholarly leader of the Social Democratic Party, was given a less than thoroughly peaceful reception when he addressed a massive disarmament rally in Bonn on Saturday.

On the eve of the election yesterday, as the party's new chairman to take over from Willy Brandt, Wogel had to be shielded by anxious lookout helpers wielding unfurled umbrellas, from random egg throwers in the 100,000 crowd.

That, however, was about the only note of disharmony to mar the demonstration. The rally, held under rain clouds on the muddy lawn of Bonn's historic university building, was a festival of pacifism attracting a large number of dogs, babies in nappies, and yong people kissing each other.

One youth was seen kicking against the venerable university walls in what looked like a fit of rage against Pershing missiles. On closer inspection it turned out he was merely removing mud from his fashionable shoes ready for a Saturday night out.

Bonn wakes up

Bonn, the sleepy town on the Rhine surrounded by fast motorways which pretends to be the West German capital, is bringing in the bulldozers to prove it is serious about its role.

In West Germany's 1949 constitution, Bonn was named simply the provisional capital pending reunification and the return of the government to Berlin. As the years have passed that objective has become increasingly less likely. Now, judging from the amount of building work work disturbing the Rhineside peace, Bonn is sealing its claims in concrete.

The new sprawling ministries —for post and telecommunications and transport—are rising on a patch of land between the city and Bad Godesberg, already graced by the Lego-like tower block housing the justice, technology and education ministries.

The finance ministry is still housed in what was once a barracks, but on account of the need to show an example in saving taxpayers' money, it will probably be the last to move to new surroundings, officials say.

At the beginning of the month the Bundestag decided to tear down the old parliamentary building which has done service since 1949 and build a spanking modern one in its place.

The new works should give the bus-loads of German pensioners who regularly tour the capital—and wonder what the buildings are—something more to see. But architectural conservationists are angry as still more of the once-unhurried Bonn charm seems like going for ever.

Schmoelz goes

After weeks of rumours, the word is out. Mr Rheinhard Schmoelz, a board member of CSFB-Effectenbank in Frankfurt, the West German arm of the international investment banking group, is quitting to head Bank in Liechtenstein (BIL) in London.

Mr Schmoelz will join BIL, all but 0.05 per cent owned by the Prince of Liechtenstein Foundation, at the beginning of August.

The bank wants to develop its presence in London and may have some ground to make up after its very lengthy and finally fruitless talks with stockbroker Vivian Gray.

Mr Schmoelz may also find the City makes a welcome change from the sometimes less than cordial atmosphere said to have developed in the higher echelons of CSFB-Effectenbank.

After making a sizeable dent as the leading foreign investment house in the liberalised Frankfurt market in its first year of operation, CSFB seems to have run a bit aground recently. Good new deals in the Deutschemark Eurobond market have certainly been harder to come by, but some of CSFBs transactions — driven by swaps — have often had a less than welcome reception in the market.

And word is that CSFBs two former Deutsche Bank stars, Karl Miesel, its speaker, and Friedrich Hoyos, who looks after the new issues side no longer see quite so eye to eye. It could well feel that Schmoelz felt less than comfortable in the middle.

Observer

THE City of London is, for the moment, off the political hook. But in the aftermath of Mrs Thatcher's victory at the polls, the financial community has a problem with its image that all the wiles of the slickest advertising agency would do little to dispel.

While Labour failed to fire the voters' imagination with its attacks on City scandals, the electorate certainly did take an interest in another aspect of the sociology of the financial markets. The City yuppies, with their six-figure salaries, Porsche motor cars and liking for champagne bars, came to symbolise the ugly side of the Thatcherite revolution. On television and radio members of the public expressed unease at what they felt to be a climate of greed in the City.

Those who work in the Square Mile are no doubt tempted to dismiss this as a return to the politics of envy. Yet there is more to it than that. The times are surely out of joint when the cream of Oxbridge graduates are being offered starting salaries by US investment banks of up to £25,000, equivalent to two-and-a-half times the rates on offer from some of Britain's top industrial concerns and more than five times the starting figure for student nurses; when the company that produces all those Porsche motor cars made more money last year from currency and financial market operations than from manufacturing the cars; and where the financiers are making more money than their customers in industry and commerce.

The public has intuitively diagnosed that something is up; and it is important to be clear what it is, because banking, finance and insurance now account for close on 10 per cent of total employment in Britain and (see chart) have constituted the fastest growing sector of the economy in terms of employment since Mrs Thatcher came to power.

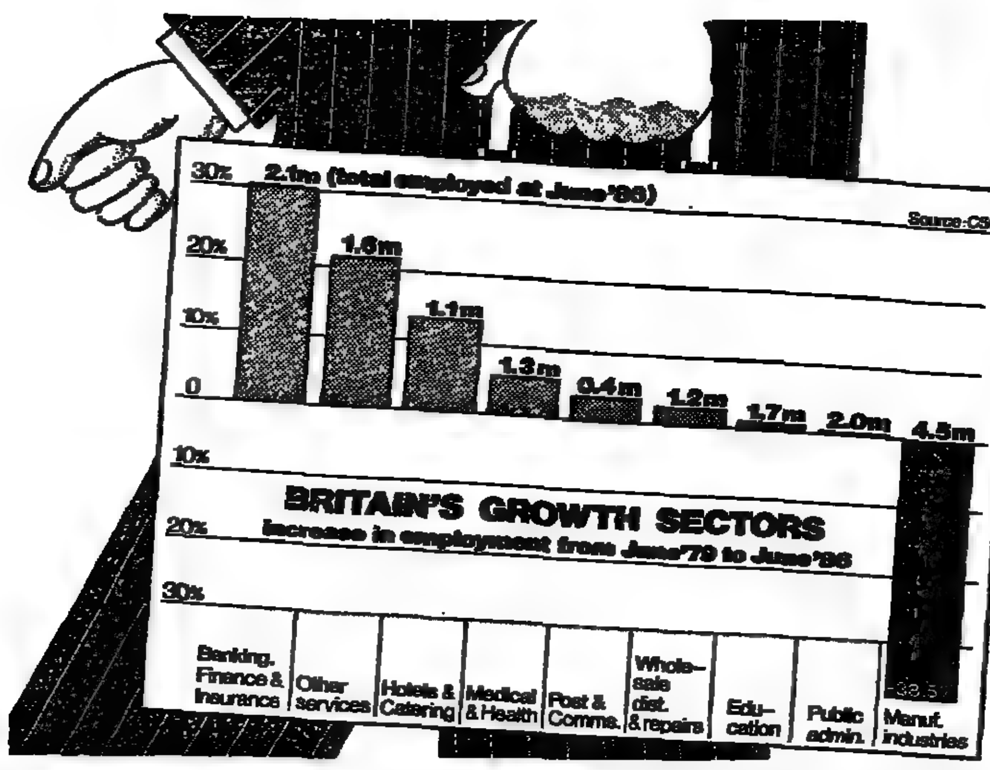
Indeed, the rise in the financial sector's share of total employment from 7.1 per cent in 1979 to 10 per cent today (which ignores the spin-off generated by the sector's absorption of goods and services from the rest of the economy) suggests that the political debate on the City should have changed rather more than it has. So what is going on? And how can a service industry thrive when there are fewer and fewer manufacturers to service?

The short answer is that the fastest growing part of the City is providing a service mainly to foreign governments, corporations and financial institutions, not British manufacturers. Having established itself during the present economic cycle as the chief financial centre in the European time zone, London operates in a global market.

The City after the election

Under the skin of an image problem

By John Plender



That market is growing faster than most because it thrives on many of the instabilities that are contributing to low growth in the world economy. The City is taking a percentage cut of the huge capital flows that stem from trade imbalances and from financial volatility. It is thriving much as a drug company thrives in an epidemic.

Put another way, the financial community has been a major beneficiary of the collapse of the Bretton Woods fixed exchange rate system and the widespread removal of exchange controls. The central bankers' tradition job of stabilising currencies has, in effect, been privatised and the global financial system has increasingly taken on the role of an insurer against volatility.

A West German manufacturer like Porsche was able to make profits last year, despite the impact of the appreciating D-Mark on its exports to the US, precisely because it was able to hedge in the foreign exchange markets. At the same time multinationals such as General Motors or ICI engage in constant arbitrage through a host of new financial instruments such as swaps to minimise currency and interest rate risks and to reduce the cost of borrowing.

It follows that much of the City's international dealing is not so much anti-social as a symptom of a more fundamental economic malaise. That malaise has been exacerbated by the nature of recent technological development. Computer chips make no demand on the world's main commodity markets, which have been exceptionally depressed in the 1980s; they are made of cheap sand. Nor, as Brian Reading of International Advisory Associates has argued, do they do much to generate new consumer demand, compared with, say, the railway or the motor car. They chiefly change the workings of manufacturing processes and existing consumer products.

Yet the combination of computers and advanced telecommunications has transformed the financial world by reducing dealing costs by up to 90 per cent and creating the potential for a plethora of new financial instruments that rely on complex mathematical formulae. All this contributes to the paradox of ballooning financial activity, high unemployment and low commodity prices across the world.

By diverting disproportionate human resources into financial activity Britain does, however, put itself in a rather peculiar position. Any international move to iron out payments imbalances, to bring back fixed exchange rates and capital controls, or to impose tougher financial regulations on the more casino-like games would, in the short run, have a damaging impact on domestic employment. By playing host to a foreign community whose pay rates reflect conditions on Wall Street, London inevitably contributes to the climate of social division, and to the perception of a north-south partition.

This perception is a distinctive novelty of Mrs Thatcher's administration. For the City enjoyed a huge boom under Labour in the second part of the 1970s, as the international banks in London recycled the Organisation of Petroleum Exporting Countries' petrodollars to Third World oil consumers. Yet it failed to attract envy on this particular score.

The growth of financial sector employment could none the less pose problems for any future Labour government. If Mr Roy Hattersley's proposals for increasing taxes on the rich had borne heavily on expatriates in Britain, for example, banking and securities business might have disappeared to continental Europe — though the risks tend to be exaggerated by those American bankers who were not working in London under the last Labour government.

This suggests that the City's international earnings are, as the financial analysts would say, of less than top quality. Then there is the question of how sensitive the financial system is likely to be to the needs of domestic businesses when it attention is fixed on distant horizons and the dealing habits of the international markets have been allowed to infect the domestic securities system in the wake of the Big Bang.

A domestic financial system has many functions. It exists to enable savers to minimise the excessive risk of direct investment in productive assets by offering a spread of portfolio investments. It allows people to trade earnings in their productive years for consumption in retirement and encourages households in financial surplus to recycle funds to those in deficit. It provides a payment mechanism across the country. Above all, it permits capital to be allocated to the most productive use.

On most of these points the City does a sound job and deregulation of the financial markets has genuinely improved consumer choice. But on the final score it has recently come under fundamental attack from Professor Colin Mayer of the City University Business School—and the grounds are far more sophisticated than those offered by Labour during the election.

On the basis of an analysis of the financing of Britain's capital stock between 1970 and 1984, Professor Mayer points out, first, that only 4 per cent of the corporate sector's total funding came from issues of new shares; and second, that if the non-financial sector's purchase of purely financial assets is stripped out of the picture, so isolating its investment in physical assets such plant and machinery, the capital markets contributed nothing at all.

He argues that the pursuit of efficiency in financial markets may be achieved at the expense of the more fundamental objectives of promoting investment and risk taking; and that it contributes to a lack of mutual commitment between investors and the company.

If Mayer's claims are right—and they certainly call for a serious response—they cast the City's domestic dealing activity in a curious light. In the year to June 1986 brokers were charging estimated commissions on equities of £672m, while the difference between the jobbing system's best buying and selling prices may, on tentative estimates, have been running to more than £1½bn. These figures will have fallen sharply since Big Bang. But they indicate what a high price has been paid in transaction costs to provide liquidity in a market that, in aggregate, finances no productive investment.

They also raise a question or two about Big Bang. To what purpose has equity market-making capacity been so heavily increased—at the cost, moreover, of creating a shortage of dealing skills that in turn inflates those yuppy salaries.

Of course, some of the casino aspects of the City will prove self-correcting. According to the OECD's latest issue of Financial Market Trends, international borrowing activity is slowing down and many forms of financial arbitrage are losing momentum.

But the paradox remains. By urging Big Bang on the City, the Bank of England has promoted increased liquidity in the capital markets. Yet more liquidity leads to less long-term commitment between the providers and users of capital—which happens to be one of the Bank's current worries. It wants fund managers to take a longer-term view and to monitor their stakes in the corporate sector more actively. Yet one of its own recent surveys suggests that a smaller proportion of investment institutions exercised their votes at company meetings than was the case with eligible voters at the general election. A strange way to exert control over British industry. What price liquidity?

Lombard

Strategies for the left

By Edward Mortimer

IT WAS already quite clear, after the 1983 election, that the Conservative Party was assured of power so long as it continued to face a more or less evenly *divided opposition.*

The Labour Party had been fatally weakened by the defection of the SDP, and for there to be once again a credible left wing or social-democratic alternative to Toryism one of three things had to happen. Either the Labour Party had to bring its lost sheep (with or without their shepherds) back into the fold: or the SDP (with or without the Liberals) had to replace Labour as the main party of the left; or there had to be an alliance between the two.

There was never much chance that any of the three would happen in time to secure a left-wing victory this time round. Four years was too short a time for the struggle for hegemony on the left, between Labour and the Alliance, to be fought to a finish with either side the clear victor. But it was also too short a time for either, and for Labour especially, to accept that it could not win by itself and that an alliance was necessary. It was as though both had tacitly conceded one more Tory victory in advance, giving priority to their longer-term struggle against each other.

In that struggle Labour has clearly won the latest round. The question is whether it has won outright. That must depend in large part on its behaviour in the next year or so.

If Mr Kinnock carries on with his work of pulling the party back into the mainstream of British politics—fleshing out the moderate proposals in the 1987 manifesto, persuading the party conference to reverse its more doctrinaire positions, further disengaging the party from its association with worn-out models of statist and corporatist socialism, adopting a defence policy which can *credibly* be presented as strengthening rather than weakening Nato, and introducing (as he is pledged to do) internal democracy within the party on the basis of one member, one vote—then many of those who were party members or supporters before 1981 and subsequently defected to the SDP might well reconsider their allegiance.

It is by no means certain, however, that Mr Kinnock is in a position to do this. He is unlikely to be able to exert such *tight control over the party in* the aftermath of the election as he did in the run-up to it—especially given the rather disappointing overall result and the strengthened position of the far *left within the new parliamentary party.*

The far left could in fact prove the best allies of the SDP, precisely because they do not want to be forced back into sharing the Labour Party with right wing social democrats. Many left wingers, among them Mr Ken Livingstone, support proportional representation for this reason.

The Alliance, in its moment of gloom, could perhaps take heart by remembering the position of the French Socialist Party in the 1969 presidential election, when its candidate won only 5 per cent of the votes against 21 per cent for the Communist, and the run-off ballot was between two conservatives.

Soon afterwards Mr Francois Mitterrand won control of it and began building it up into the dominant force on the French left. He succeeded for three reasons. First, the electorate could see, and the Communists were therefore obliged to acknowledge, that without an alliance of Communists and Socialists there was no hope of defeating the right. Second, once that was admitted, the political centre of gravity within the alliance moved inevitably towards the centre, because it was centre votes that had to be won over. And third, when the Communists tried to pull out they lost support because the electorate blamed them for keeping the right in power.

It is just possible that Labour in Britain will repeat the errors of the French Communists and allow Dr Owen—or some other Alliance leader, more willing and able to pose as the champion of a united left—to play the role of Mr Mitterrand. But the drama would take time to play itself out: it was 12 years after 1969 before Mr Mitterrand became President of France. For those not willing to wait so long, it seems a better hope that Mr Kinnock will succeed in bringing Labour back to its historic role in British politics.

Letters to the Editor

Great north way

From the Managing Director, Cunliffe Group Insurance Services.

Sir,—On June 11 you carried an article on the new Visa interchange centre in Kensington. This development may be a good illustration of the business attitudes which need to change if the domestic north/south divide highlighted by the Election results is to be changed.

The Visa interchange is a piece of electronics which presumably depends for its success on communication links and qualified staff. An effective telephone microwave network straddles the UK and there is certainly no shortage of electronic know-how in this city. One wonders whether it was really necessary for Visa to choose to site its exchange in such an expensive area.

I know from my involvement with the Manchester Chamber of Commerce Economic Committee, that a great deal of excellent work is being done to revitalise Manchester's economic health. The task, however, would be easier were is not for the existence of a mental block at board level in our major companies.

Breaking down the economic north/south divide is not just a matter of Government policy. It requires our major, mainly London-based, companies to *change* their psychological attitudes. Perhaps one of the most productive actions Mrs Thatcher can now take is to try to instil into our leaders of industry that they have a *responsibility* to regard location as more than deciding between the City, and Reading, let alone Kensington.

R. A. Jewell,
Television House,
Mount Street,
Manchester.

Unit costs and production

From Mr P. Stewart.

Sir,—I read John Muellbauer's article (A note of caution over productivity, June 10) with dismay. In all his rather complicated meanderings about whether productivity is up or down, the weight to put on capital, the prospects for labour productivity growth and unit labour costs, there is not one mention of the *only* sensible guide as to whether manufacturing in this country is doing a better job than previously. That guide is surely the *unit cost* of production. What does it matter if "productivity" (ie production) is up if the unit cost is also up? What does it matter if there is an increase in the output per head if the unit cost of the finished article also rises?

And, similarly, what does it matter if wages rise (even dramatically) provided the unit cost of production falls?

Paul Stewart,
3 Dr Johnson's Buildings,
Temple EC4.

Manufacturing productivity

From Mr G. Keating and Mr P. Spencer.

Sir, — John Muellbauer's analysis (Lombard, June 10) of the trend in manufacturing productivity is overly cautious, if not actually inconsistent. We think the evidence points to an underlying growth in UK industrial labour costs of 3 per cent, not 4½ per cent as he suggests.

He assumes that employment in manufacturing would remain constant while earnings continue to grow at 8 per cent. Manufacturers have continued to shed labour even during the present upturn and this trend would accelerate in the circumstances he envisages. The resulting increase in capital per head would boost labour productivity growth by far more than the ½ per cent a year that he estimates.

To put his estimate in perspective, note that the increase in capital per head has boosted labour productivity by 1¼ per cent a year since 1980, slightly up on the trend of 1½ per cent seen since 1965. It is difficult to see much scope for a slowdown in this trend if wages continue to grow at the rate suggested by John Muellbauer.

Nevertheless, our analysis suggests a more favourable outcome, for both productivity and employment. The rise in manufacturing output has boosted earnings through overtime and bonus payments and our estimates suggest that underlying (or cyclically-adjusted) earnings are increasing at less than 7 per cent a year. Adopting a conservative assumption about the ability of employers to substitute capital for labour, we estimate that this will have the effect of increasing productivity by ¾ per cent a year, just half the historical value.

Adding this figure of ¾ per cent to the Muellbauer "total factor productivity" trend of 3¼ per cent gives our labour productivity projection of 4 per cent a year. Subtracting this from the cyclically-adjusted 7 per cent trend in earnings gives 3 per cent for the trend rate of unit labour cost inflation, below that in competitor countries.

With the outlook for manufacturing output remaining so bright, there will be a further cyclical improvement in productivity, so labour cost inflation will be well below 3 per cent for the foreseeable future. Unit labour costs have been practically unchanged since the beginning of 1986 and should remain so this year.

Giles Keating,
Peter Spencer.
Credit Suisse First Boston,
22, Bishopsgate, EC2.

Doomsday means . . .

From Mr R. Morris

Sir,—I was fascinated and appalled by the arrogance north of the Border described by James Buxton in his article (June 10).

He says that in Scotland "Doomsday means the Conservatives retaining power at Westminster but losing so many . . . parliamentary seats in Scotland that the legitimacy of their rule . . . is called into question."

But what about the legitimacy of several past Labour governments which have been inflicted upon England by Scotland and Wales?

England almost always votes Conservative. I believe that Labour has only once achieved a working majority based on English seats alone: in 1945, and even then this had been whittled away by by-election defeats by 1950.

No subsequent Labour administration has achieved a working majority in England alone.

This means that Doomsday is inflicted upon England only when the Scots and Welsh vote Labour in sufficient quantities. The corollary is that while the SNPs and Plaid Cymru's policies might possibly, if implemented, be disastrous for Scotland and Wales, they would certainly be a glorious success for England, which would thereby be permanently ridden of the dangerous Celtic vote!

Roger C. Morris.
17 Uxbridge Road,
Stanmore, Middlesex.

Welcome relief

From Mr D. Saunders

Sir,—Ms Hayter (June 6) writes that "a well paid City friend" . . . resented "Mrs Thatcher's" tax cuts because he could well look after himself.

If this "friend" exists *outside her article he should know* there are many far-from-rich people, especially at the margin of paying tax, for whom the Government's tax reductions have meant a welcome relief in keeping more of their own hard-earned money — and many businesses which are likewise more competitive, leading to more output, more jobs and so more tax revenue. Tax cuts *do* make possible an expanding economy which in turn provides the means to help the *less advantaged.*

If Ms Hayter's "friend" feels so guilty about his tax cuts, why not covenant his *surplus* to voluntary or charitable organisations — who may also re-claim the tax element for their extra benefit?

Or is it a case of talking big and doing little?

David Saunders.
239 Manor Farm Road,
Southampton, Hants

Telling point

From Mr M. Shields

Sir,—I note that even in your columns, the widely-used mistranslation of the Russian word *glasnost* occurs. Whoever first coined the translation "*openness*" must have been a Soviet propagandist, because *glasnost* doesn't mean anything like "openness" at all.

It comes from the word for "voice," and means something like "publicity"; there is a fundamental difference between this and the meaning of "openness." Openness — otkrovennost —*is letting people know what* they want to know, whereas publicity is letting them know what you want them to know.

As such *glasnost* is a perfectly accurate word when used in Russian. *It is a great pity we* are not using a word of similar accuracy in English.

Mike Shields.
199 The Long Shoot,
Nuneaton, Warwicks.

Interest rates

From Mr M. Moore

Sir,—Mr A. L. Teasdale (June 6) describes some of the great benefits to Japan of keeping its interest rate low, then by a remarkable sleight of hand uses this as an argument against the UK doing the same!

Apparently, as when Churchill decided to take the UK on to the gold standard in 1925, when an action is politically *expedient,* reason and experience are as nought.

Michael Moore.
58 The Ridge,
Marple,
Stockport, Cheshire.

Bubbles burst

From Mr E. Dadson

Sir,—You report (June 11) that "Tie Rack flotation draws £ibn."

Please reprint for readers the story of the South Sea Bubble.

Eric Dadson.
6 Pomona Road,
Shanklin, Isle of Wight.

FINANCIAL TIMES

Monday June 15 1987

Anatole Kaletsky on Wall Street

Life on top of the pile

MR RUDOLF GIULIANI, the New York district attorney, may be swooping like an avenging angel on the corporate raiders and arbitrageurs and manufacturing industry *may be enjoying a revival at the US business schools*, but for anyone who sincerely wants to get rich in America today there is still only *one way to go – the merger and corporate restructuring game* on Wall Street.

This message emerges clearly *from the latest survey of* "The Wall Street 100" – the highest paid financial executives in America – published last week by Financial World.

Of the top 10 earners identified by Financial World, seven made most of their money out of the mergers and acquisitions business, while an eighth specialised in floating private companies on the stock market through Initial Public Offerings.

This group of 10 was so far ahead of anybody uninvolved in corporate restructurings that it is almost hard to understand why other financial managers, to say nothing of industrial executives, bothered to carry on at all for their relatively meagre earnings.

The $45m annual income required to reach Wall Street's top 10 was more than double the earnings of Mr Lee Iacocca, chairman of Chrysler, and the highest paid industrial executive in the US last year.

More surprisingly, the top 10 were even further ahead of the best-known management figures on Wall Street – people *like Mr John* Gutfreund, chairman of Salomon Brothers, who earned only $3.1m, and Mr Peter Cohen, of Shearson Lehman, who made around $4m.

Even Mr Alan "Ace" Greenberg, chairman of Bear Stearns, got only $14.5m, including bonuses, options and the capital gains on his Bear Stearns stock, according to the survey.

Indeed, among the great Wall Street firms only two private partnerships provided their members with at least eight-figure remuneration packages. These two – Lazard Freres and Drexel Burnham Lambert – were, of course, primarily involved in mergers and corporate restructurings, rather than the more mundane business of trading stocks and bonds.

In the event, Lazard's chairman, Mr Michel David-Weill, came top of the list, with an estimated income of $125m, while the controversial head of Drexel's junk bond department, Mr Michael Milken, came fourth with "as much as $80m" in total earnings.

The rest of the top 10 included five other names familiar from the news on corporate restructurings – Mr Jerome Kohlberg, Mr Henry Kravis and Mr George Roberts, who made $50m apiece from KKR's leveraged buy-out activities, and Mr William Simon and Mr Raymond Chambers, *whose buy-out business* through Wesray Corporation provided them with $45m to $50m each.

Another of the top 10, Mr Morton Davis, is an equally well-known figure outside the financial world. As chairman of Blair and Company, a Wall Street firm specialising in Initial Public Offerings, he made between $60m and $65m in fees and capital gains on the shares which he retained in his flotations.

The fortunes made in the corporate restructuring arena left just two top spots for Wall Street's traditional business of speculating in equities and bonds. But although these two names are little known outside the financial community, *they are becoming legends* on Wall Street.

Mr George Soros is said to have earned between $90m and $100m managing the Curaçao-based Quantum Fund, putting him in the No 2 position in Financial World's list for the second year running. Mr Soros has made most of his money speculating on macroeconomic trends not on the fortunes and misfortunes of individual businesses.

He has been considered an isolated figure until recently, shunning the company of brokers on the grounds, as he often puts it, that he "has a very low regard for the sagacity of professional investors."

More recently, he has attempted to organise and publicise his ideas not only about the markets but about the world economy in general into a broad sociological "theory of reflexivity" that has attracted him considerable attention.

As an individual he is ironically likely to become most famous in the communist, not the capitalist, world. Not only has he argued strongly against the pseudo-scientific justifications of the capitalist market system, he has also devoted much of his wealth to establishing an "open society fund" to support unofficial intellectual activities in his native Hungary, with the acquiescence of the Hungarian Government.

David Marsh, in Bonn, on the political testment of a long-serving statesman

Brandt's emotional farewell

MR WILLY BRANDT, the 73-year-old amalgam of strength and self-doubt whose life has mirrored the vicissitudes of West Germany, yesterday said an emotional goodbye to the Social Democratic Party (SPD) he led in both victory and defeat.

His rambling farewell speech of nearly two hours at the SPD's exceptional one-day conference in Bonn represented the political testament of a man who has arguably done more than any other living West German to bring the country to terms with its uneasy past.

The long dissertation, peppered by shadowy, probing and ironical asides lightened by the odd, often self-mocking, jibe, marked the end of Mr Brandt's 23-year reign as chairman of the party which has now formed the West German opposition for more than four and a half year.

He will, however, remain honorary chairman while his successor, the solid but lacklustre Hans-Jochen Vogel, slogs on in office. The speech was both a look back into history and an effort to give new philosophical drive to a party which, beaten in the January general elections and suffering from severe internal strife and indecisiveness, is starting to become resigned to a long period in the political wilderness.

Declaring that, whenever in doubt, Social Democrats should always fight "for liberty" Mr Brandt sketched out a vision of an SPD which would stand out for social justice and peace against "the German leaning towards concentration of power." He warned that "the state must not want to do and regulate everything."

Mr Brandt twice used the word "Fatherland" to express new-found pride in the dividend and wounded country from which, as a young Socialist, he fled in 1933 to escape the Nazi regime. Evoking the SPD's warnings in 1932 about the rise of the Nazis, Mr Brandt set down firmly his belief that the SPD – for instance in its present-day opposition to nuclear power – must run the risk of sounding unpopular. "We must not gear our programme to what people want to hear," he said.

When it was all over, Mr Brandt's taut, lived-in face, perennially tanned from his frequent stays in the South of France, glistened with sweat, a mask of both grief and relief. His dark suit, complete with waistcoat, looked curiously like one a man might chose to be buried in. He sat down, stood up, sat down again, half-overwhelmed, half-exasperated, during an eight-minute standing ovation.

A small flower shop of bouquets built up in front of him from lady SPD admirers. Then, and only then, Mr Brandt finally and somewhat reluctantly saluted the packed Beethoven Hall. The episode underlined the mixed feelings of a party in which during a quarter of a century he has inspired awe and massive respect – but not love – and which finally dethroned him when he was forced to announce his resignation in March.

Mr Brandt changed the politics of his own country and of Europe with his Ostpolitik policy of normalising relations with the East under his Chancellorship from 1969 onwards before he resigned over a spy scandal in 1974. In one of the almost arbitrary falls from grace which has plagued his career, he quit the chairmanship three months ago, a year ahead of schedule, after a row over his bid to appoint a non-SPD Greek-born party spokeswoman.

The bruises were not far below the surface yesterday. Mr Johannes Rau, Prime Minister of the state of *North Rhine Westphalia* and unsuccessful candidate for the Chancellorship in January, and who has not always had a happy relationship *with the chairman, appeared to* bring tears to Mr Brandt's eyes when, addressing himself to the chairman, he asked for forgiveness "for those who have hurt you."

Mr Brandt at one point directly referred to the spokeswoman incident. Showing that the scars have not healed, he said some of the sentiment against the disputed appointment in March had been "shocking."

The SPD was "a European party" and "enmity towards outsiders" should always be opposed, he said sternly.

Mr Brandt admitted that he had made mistakes at the helm of his troubled and troublesome party. The self-rebuke seemed to refer to his former, now-regretted hints of a possible alliance with the Greens ecology party which cost the SPD votes in January.

"I have not always considered what should be considered. I am sorry," he said. "And that is it," he added, confirming that the defiant sagacity which will go down in history as his hallmark is still very much alive.

Mr Hans-Jochen Vogel (right) yesterday applauding Mr Willy Brandt, his predecessor as chairman of West Germany's Social Democratic Party. Mr Vogel said there would be no "going back" on the party's controversial decision last summer aimed at a gradual shut-down of the country's nuclear power stations.

Mr Vogel was elected by 404 votes to nine out of the 422 delegates at yesterday's party conference, with 10 abstaining. Mr Oskar Lafontaine, the Prime Minister of the state of Saarland, who is tipped by many as the party's next candidate for the chancellorship in the 1990 general elections, was elected as vice chairman, a position he will share with Mr Johannes Rau, Prime Minister of North Rhine Westphalia.

Mr Vogel, the party's unsuccessful candidate for chancellor in the 1983 general elections, called on the party to analyse fully the reasons for its recent setbacks against the governing conservative parties.

He also said the party had to give up finally its debate of last year about whether to enter an alliance with the anti-nuclear Greens party. "The permanent debate over alliances . . . is a precious help for all our opponents," he said.

Mr Vogel was the main speaker at the "peace rally" in Bonn on Saturday urging full nuclear disarmament. Attracting 100,000 people, the rally ran into strong criticism over the weekend from the federal Government.

India hit by further wave of Sikh terror in Punjab, Delhi

BY K. K. SHARMA IN NEW DELHI

SIKH extremists escalated sharply their campaign of violence at the weeked with attacks in Punjab and the heart of the Indian capital, Delhi.

Fifteen people were reported to have been killed in Punjab yesterday while in Delhi police were placed on alert after Sikh gunmen short dead 12 people and injured 22 late on Saturday in the worst extremist attack in the Indian capital in two years.

Gangs armed with machineguns and hand grenades attacked Hindu homes in the fashionable residential suburbs of south Delhi in four separate incidents.

Police said that no arrests had been made and the extremists are expected to have either escaped across the border with Haryana state or were hiding somewhere in Delhi. The entire police force has been *mobilised and has taken up* positions around the city.

Since direct rule from New Delhi was imposed in Punjab over a month ago the police have cracked down on extremists and only last week the authorities were claiming considerable success in eliminating leading terrorists.

The current wave of terrorist activity suggests that the extremists are striking back not only in Punjab but attacking in Delhi with the aim of trying to force the authorities to stop the crackdown in Punjab.

Police in Delhi have been expecting such attacks since the anniversary last week of "Operation Bluestar", the army action ordered by the late prime minister, Indira Gandhi in June 1984, on the Golden *Temple in Amritsar. Bombs have* been found on railway tracks and in a market in New Delhi.

Nevertheless, the weekend attacks in the capital took the authorities by surprise since Sikh extremists have not made Delhi a target since a series of bomb explosions in May 1985. Police fear further attacks aimed mainly at Hindus, and designed to take pressure off the militants in Punjab.

There is also concern that if the violence continues, it could lead to a Hindu backlash because of the growing anger against the Sikhs among the majority community.

A protest general strike has been called in Delhi today by the right-wing Indian People's Party.

Pope leaves Poland

Continued from Page 1

little in terms of the changes which Gen Jaruzelski had led him to expect.

Earlier yesterday, the Pope prayed at the grave of the murdered Solidarity priest *Father Jerzy Popieluszko* at St Stanislaw Church in a Warsaw suburb and offered comfort to the cleric's parents.

The Pope kissed the massive granite cross marking the grave and laid a bouquet of flowers in the red and white colours of Solidarity.

The 10,000-strong crowd who waited outside the church gates during the ceremony were outnumbered by police and plainclothes security men deployed by the authorities to deter Solidarity demonstrations.

Later, the Pope went on to officiate at a mass attended by about 1m people in front of Warsaw's Palace *of* Culture, a Stalinist-style tower donated by the Soviet Union in the 1950s.

During the ceremony, the Pope beatified *Bishop Michal Kozal who* died in the Dachau Nazi concentration camp in 1943.

The Pope appears to have come to Poland determined to reverse the mood of popular apathy that had set in following the imposition of martial law,

His sermon at the Zaspa housing estate in Gdansk when he openly declared himself the spokesman of the banned Solidarity movement was clearly a *high point, thrilling* the crowd, many of whom carried red and whith Solidarity banners.

The effects of the Pope's visit may take some time to emerge, but *it is certain to strengthen Solidarity* and the opposition groups around it, and help attract new recruits. It could also crystallise the discontent *that Poles feel at rising prices and* shortages of housing and consumer goods into another revolutionary movement like that which spawned *Solidarity in 1980*.

The moderate Polish Church leader, Cardinal Jozef Glemp, has also been placed in a difficult position. *The Pope has made it clear* that Solidarity priests like Father Popieluszko, who was killed by Polish security police in 1984, are a *model to be followed.* Yesterday the Pope told Polish bishops that working for civil rights was one of their primary tasks.

World Weather

		°C	°F
Ajaccio	F	26	79
Algiers	S	29	84
Amsterdam	F	14	57
Athens	S	30	86
Bahrain	S	32	90
Bangkok	—	—	—
Barcelona	F	22	72
Beirut	—	—	—
Belfast	F	11	52
Belgrade	S	32	90
Berlin	C	17	63
Biarritz	C	12	54
Bombay	R	26	79
Bordeaux	R	14	57
Brussels	C	13	55
Budapest	S	29	84
B. Aires	—	—	—
Cairo	S	34	93
Cape Town	C	18	64
Caracas	—	—	—
Casablanca	C	21	70
Chicago	F	23	73
Cologne	F	15	59
Copenhagen	R	11	52
Corfu	S	29	84
Dallas	C	23	73
Dublin	C	12	54
Dubrovnik	S	27	81
Edinburgh	F	11	52
Faro	F	28	82
Florence	C	31	88
Frankfurt	F	18	64
Funchal	F	20	68
Geneva	C	18	64
Gibraltar	F	23	73
Glasgow	R	9	48
Guernsey	S	13	55
Helsinki	F	15	59
H. Kong	S	31	88
Innsbruck	S	25	77
Inverness	F	12	54
I.o.Man	—	—	—
Istanbul	S	25	77
Jakarta	—	—	—
Jersey	S	15	59
Jo'burg	S	17	63
Lima	—	—	—
Lisbon	F	18	64
London	R	15	59
Los Angeles	C	15	59
Luxembourg	S	15	59
Madrid	F	18	64
Majorca	F	25	77
Malaga	F	26	79
Malta	S	32	90
Manchester	R	12	54
Manila	—	—	—
Melbourne	C	14	57
Mexico City	—	—	—
Miami	S	28	82
Milan	S	27	81
Montreal	F	17	63
Moscow	F	25	77
Munich	C	13	55
Nairobi	C	28	82
Naples	S	32	90
Nassau	—	—	—
New Delhi	F	35	95
New York	C	22	72
Nice	F	23	73
Nicosia	—	—	—
Oporto	S	15	59
Oslo	S	17	63
Paris	C	17	63
Peking	S	26	79
Prague	F	21	70
Reykjavik	R	9	48
Rhodes	S	30	86
Rio de Ja'o	—	—	—
Rome	S	27	81
Salzburg	F	23	73
San Francisco	C	14	57
Seoul	C	26	79
Singapore	C	28	82
Stockholm	C	11	52
Strasbourg	C	17	63
Sydney	S	17	63
Taipei	—	—	—
Tangier	F	19	66
Tel Aviv	S	29	84
Tenerife	R	23	73
Tokyo	F	24	75
Toronto	F	19	66
Tunis	R	26	79
Valencia	F	26	79
Venice	S	25	77
Vienna	S	25	77
Warsaw	T	23	73
Washington	F	22	72
Zurich	F	19	66

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Thatcher review

Continued from Page 1

tackle the Government's allegedly "uncaring" image and that Mr Moore has the right talents as an administrator and public performer.

In general, the changes, including *the recall of Mr Parkinson to be*come Energy Secretary, have produced little response. The only exception has been strong criticism by Welsh MPs of the appointment of Mr Peter Walker, formerly Energy Secretary, as Welsh Secretary. Mr Walker represents Worcester in England and Mr Barry Jones, Labour's Welsh spokesman, said the principality needed "a Welsh MP at the helm."

Customs to speed express delivery

By Kevin Brown in London

THE WORLD 'S customs services are soon expected to take the first *steps towards removing bureaucrat*ic barriers to the fast-growing express mail industry.

The express mail operators, most of which are privately owned, believe major changes are needed if the $4bn-a-year industry is to maintain an annual rate of growth estimated at between 20 per cent and 50 per cent.

The initial reforms will be high on the agenda of the Customs Cooperation Council, the UN agency representing 98 national administrations which meets in Ottawa next week.

The council will have before it draft proposals for a memorandum of understanding which would recognise the industry's special need to avoid customs delays.

The memorandum, described by one official as a "gentlemen's agreement," has been drawn up by the council's Brussels-based secretariat, which has been negotiating with the major express companies since January.

The secretariat is also recommending draft guidelines designed to harmonise the procedures of in*dividual customs administrations* and encourage greater use of computers and electronic transfer of information.

This reflects moves being made by a number of customs services, notably in the US, to speed up information processing and reduce paperwork.

The guidelines would have only advisory status, however, and would remain in force for only 12 months, after which a review of their effectiveness would take place.

The secretariat has dropped earlier proposals to amend the Kyoto Convention, the basis of international customs procedures, to include a detailed annex covering express mail.

This proposal was opposed by some council officials, and by a number of customs services which regard express mail as an arm of the air freight industry.

The International Express Carriers Conference (IECC), which represents the major companies, said it was awaiting the response of the Ottawa meeting to the secretariat's proposals.

Express mail operators have made clear privately, however, that they regard the guidelines as the first step towards full recognition of the emergence of a new industry which requires a major change in *customs procedures.*

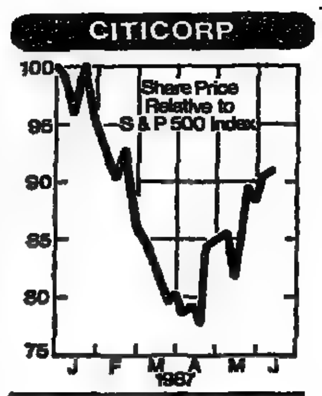
THE LEX COLUMN

The way back for the US banks

IT IS almost a month since Citicorp, the biggest US banking group, dropped its bombshell and announced that it was taking a second quarter loss of $2.5bn after effectively writing down by a quarter the value of its troubled Third World loan portfolio. The results have been stunning.

The stocks of US money centre banks have been among the hottest performers on Wall Street over the past few weeks as one after another of Citicorp's less courageous rivals has unashamedly copied the market leader and written off billions of dollars of shareholders' funds.

The share prices of Citicorp, *Chase Manhattan, J. P. Morgan and* Bankers Trust are up by between a fifth and a quarter while the overall stock market has risen 7.8 per cent *since Citicorp's historic announce*ment on May 19.



Provision mountain

To date, seven of the top dozen US banking groups have reported combined losses of $7.3bn as a result of cleaning up their loan portfolios, and most of the rest are expected to follow suit within the next few weeks which could push the aggregate write-offs above the $10bn mark.

BankAmerica, the weakest of the US banking majors, has already taken the plunge and Manufacturers Hanover, which is more exposed than most to the Third World debt crisis, is expected to announce its plans after its board meeting tomorrow.

Its shares are currently yielding 7.4 per cent, two-and-a-half times the market average and a substantial premium over the yields offered by its New York rivals. But analysts are betting that *unlike BankAmerica and Mellon it will decide to hold* its dividend.

However, for the moment Wall Street analysts are *dutifully* noting the healthy primary capital ratios and are turning a blind eye to the sharp reductions in common stockholders' funds.

The credit rating agencies, meantime, have declined to downgrade the banks' debt securities. They are taking the considerate view that the massive provisions are merely adjusting their financial statements to *bases* which "more accurately reflect economic reality."

The US money centre banks, paradoxically, are basking in their *new-found popularity in an invest*ment community which has long been almost uniformly bearish on their future.

Back in the early *1970s*, when headlong international expansion was the name of the game, New York money centre banks sported earnings multiples in the 20s. Nowadays most are selling at between six and seven times earnings and even a "blue chip" institution like Morgan is only selling at 11 times *earnings* – nearly half the average multiple on the constituents of the S & P 500.

Wall Street is pleased that the US money centre banks are finally facing up to reality. However, this satisfaction cannot fully explain the sharp jump in US banks' share prices over the last month.

Indeed, it can be argued that the most difficult task for the banks has yet to be tackled – that of removing the Third World assets from their balance sheets *without incurring* heavy losses which will eat into primary capital ratios.

One of the more intriguing explanations for the recent sharp rally in US bank shares is that Wall Street senses that the various legal regulatory barriers – most notably the separation of commercial and investment banking – which have impaired the profitability of the money centre banks over the years, may be beginning to disappear.

There have been a couple of recent straws in the wind. Thus Dr Alan Greenspan, the next chairman of the Federal Reserve, is thought to be more enthusiastic than his predecessor about loosening the reins.

Secondly, there have been reports that the US Treasury favours *the evolution of five to 10* "super-banks" in the US which would each have assets of the order of $500bn and would be big enough to be able to compete on equal terms with the Japanese financial power-houses. Only a few years ago six out of the 10 biggest banks in the world were from the US. Today, only Citicorp can scrape into the list.

It is in fact debatable whether doubling the size of Citicorp or J. P. Morgan would help them give the Japanese a run for their money, but the idea has clearly caught the imagination of Wall Street.

Just suppose that Citicorp were allowed to buy Merrill Lynch, while J. P. Morgan and Morgan Stanley were allowed to get back together again. And what if Exxon were to swallow Chase Manhattan? In such circumstances the US money centre banks could once again join the ranks of the glamour stocks.

But for the moment such ideas are nothing but pipe-dreams. In the short term, *at least*, the main thrust of official policy is likely to be towards helping repair US bank profitability. This has been declining at the same time that credit quality has been deteriorating.

Profitability, as measured by return on assets, has slipped by a third over the last five years whilst net charge-offs to loans have risen by three-quarters.

Risk profile

There is widespread evidence that big US banks have had to accept greater credit risks in order to maintain earnings and prop up their loan volume.

*Their more creditworthy custom*ers are increasingly by-passing them and instead are using the services of investment banks to tap the commercial paper or bond markets. The result is the securitisation of former bank assets.

Unless the major US banks are allowed to diversify their earnings by removing some of the more onerous geographical and product restrictions, the number of problem banks, which has risen nearly fivefold since the start of the current US economic recovery, is likely to climb still further from its current record level.

Despite Citicorp's bold move, it is too early to call the turn in the for*tunes of the money centre banks*, but that judgment could change if the *four-year-old* legislative stalemate on US banking reform were to be broken. The pressure is building.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday June 15 1987

INTERNATIONAL BONDS

Eurosterling dealers confident despite setback on Friday

THERE WERE lots of good excuses for playing a waiting game in the Eurobond market last week, what with the Venice summit and US trade figures due on Friday. So most sectors once again saw little secondary market action, writes Clare Pearson in London.

But many were hoping for some solid activity in the Eurosterling market on Friday, as they were anticipating an inflow of foreign funds once the ruling Conservative Party had been confirmed in power by the outcome of the British general election.

Hopes of such an end to the week must have been running particularly high among those Eurosterling dealers who stayed up all Thursday night to deal. They said they saw solid two-way business in the longer-dated and more liquid issues, such as a recent £200m 20-year bond for the World Bank, during the small hours.

In the event they were disappointed. During Friday morning the gilt market exhaustedly succumbed to profit-taking as looked-for Japanese buying did not emerge, and the Eurosterling market slouched in sympathy.

Most were still confident, however, that the market would post price gains this week as the implications of the Conservative win – and in particular the enhanced possibility of sterling entering the European Monetary System – filtered through to Continental and Far Eastern investors.

But three borrowers, Swedish Export Credit, Amro, and Banca Nazionale del Lavoro, were apparently not willing to wait around for that development. On Friday, they all launched bonds on ambitious pricings, anticipating a later rally.

All of these bonds were quoted at potentially loss-making levels for underwriters during the afternoon, although a deal for Swedish Export Credit stood up the best at a bid price of less 2, still outside its 1⅞ per cent commissions. Dealers said the surfeit of issues for banks in the Eurosterling market this year accounted for the fact that it was more favoured by investors.

Elsewhere, encouraging US Trade data on Friday cheered the Eurodollar market after a dull week dominated by the Venice summit, which was seen as producing no convincing new initiatives to curb the US trade deficit.

Most still view the Eurodollar fixed-rate new issues market as effectively closed, although Union Bank of Switzerland (Securities) seemed to find fair demand for a $200m bond for GMAC last week. This traded at levels close too, or inside, its fees.

But to achieve this feat the lead-manager had to fix the bond's maturity at two years. The short end of the maturity spectrum is viewed as a safe haven by investors in an uncertain environment.

Given the GMAC precedent, many dealers expect more bonds to appear at this maturity, although others are more sceptical about its advantages. They say that issues at the shorter maturities tend to get dropped by dealers, as they are boring to trade. so whatever their size the investor has no assurance that they will be liquid.

The overriding problem of illiquidity in the Eurobond market is all grist to the mill of the proponents of an alternative means of raising medium-term debt – the medium-term note (MTN) market. Here issues are not arranged in large, on-off amounts, but borrowers can issue small amounts at differing maturities on demand.

The depth of investor interest in the medium-term note market remains largely unknown at the moment, however, as only a handful of programmes have so far been arranged.

Ironically, GMAC's bond may have given it a helping hand, as dealers managed to sell last week between $10m and $20m of a $1bn MTN programme for the same borrower, which was hailed as a benchmark when it was launched in January, but very little of which has since been passed on to investors.

Last week, however, GMAC was said to be offering the paper at a yield of around 15 basis points over that available on the two-year bond, and the price comparison, even though it reflected the fact that MTNs are still largely untried instruments, lured investors in.

Elsewhere, equity warrant bonds for Japanese companies continued to trade at premiums, even though the Asian tranche of a $200m deal for Minebea, the ball bearings company, had to be withdrawn from the market by Daiwa Singapore because of lack of demand. The $100m European tranche had been withdrawn by Nomura International the previous week.

But, meanwhile, Yamaichi International (Europe) underlined the overall strength of the sector by setting a record low 1 per cent coupon on a $200m deal for Mitsubishi Chemical. The ½ point cut had no effect on the market price of the bond, which continued to trade at around 106.

Nevertheless, the coupon cut is bound to exert further downward pressure on coupons of future deals. Pricing levels in this market are determined far more by precedent than by credit and investment analysis, and Japanese securities houses' desire to maintain relationships with borrowers means that they tend to give in to their demands.

Given the current enthusiasm for the warrants on some of the bonds, the coupon level can be an irrelevancy. But, as the withdrawal of Minebea's bond demonstrated, it can also have dire results in a market where underwriters can usually be assured of fat profits.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	605.2	349.4	3.1	4,907.0
Prev	488.2	357.4	168.7	3,966.4
Other	2,494.2	718.5	65.3	332.0
Prev	2,666.2	2.6	0.0	564.0
Secondary Market				
US$	25,966.0	1,960.2	16,267.1	7,640.7
Prev	21,477.0	1,765.1	15,969.3	6,667.6
Other	20,672.6	[illegible]	2,967.0	11,799.4
Prev	16,140.1	[illegible]	6,439.3	12,477.9

	Cedel	Euroclear	Total
US$	18,755.1	38,894.8	57,649.9
Prev	13,857.8	36,941.9	50,799.7
Other	18,103.2	21,946.3	40,049.5
Prev	16,262.8	24,875.6	41,138.4

Week to June 11 1987 — Source: AIBD

EUROPAPER AND CREDITS

Investors lured by sophisticated swaps undeterred by dollar concern

MANY issuing houses, taking stock as the half-year approaches, agree that the market for Eurocommercial paper has made major strides since the year began, writes Stephan Fidler in London.

The amount of outstanding paper seems to have risen significantly as new investors, many outside the financial sector, have been attracted to the market. Ignoring note issues, the amount of ECP outstanding may have grown to as much as $35bn, some houses estimate.

The sophistication of the swaps market has ensured that investors have continued to buy paper despite concern about the dollar. On occasions, it even allows them to pick up yield, despite the cost of between 6 and 12 basis points for the swap transaction.

Surprisingly, the weakness of the dollar has had other benefits from the market's point of view. The unprecedented foreign exchange market intervention earlier this year to bolster the US currency left many central banks with large investible holdings of dollars.

Traditionally, these funds would go straight into US Treasury bills, but these days many central banks are looking to pick up yield by investing in top-rated sovereign risk paper in the ECP market - where yields have been traditionally linked to the bank deposit market.

Treasury bill yields have been depressed by the flight to quality assets, caused by concern about bank risk following Brazil's move in February to suspend interest payments on its bank debt.

Treasury bills thus yield anywhere between 80 and 90 basis points below London interbank bid rate. Compare that with the yield of 10 to 12.5 basis points below Libid for the three-month paper issued last week under the new programme by Belgium.

Some central banks are known mainly as short-term holders of the paper, viewed in the same light as the banks dealing in the market and trading in and out of the market as many as two or three times a day.

Central bank influence on the market has also waned in the last month or so as intervention volume has slowed. Thus, while they are expected to remain a feature of the market, they have not yet proved a reliable long-term investor base.

They have helped create a so-called "run" of triple-A rated paper, though. The run implies total fundibility among the credits, and investors' indifference to the paper they hold. The concept of the "run" is well developed in other, more mature markets, such as that in bank certificates of deposit.

In the corporate sector, issuance in the ECP market has undoubtedly been slowed by the lower yields at which many borrowers can issue in the domestic US market. However, this has not been a block to all US issuers.

Chrysler Financial, for example, is said to have built its ECP programme to $700m at what it presumably considers advantageous rates by its willingness to tailor its paper to what borrowers are looking for.

What has not occurred yet is the predicted shake-out of underperforming dealers. That this has not happened seems to be due more to unwillingness of borrowers to embroil themselves in controversy, rather than to the fact that no dealers are underperforming.

Of the more than 400 programmes, according to one bank's analysis, only 20 to 30 have announced dealership changes. The vast majority of which were additions (in which there may or may not be implied criticism of the existing group). In only about half a dozen cases have dealers been dropped.

Among new ECP programmes announced this week was a $200m programme for the French publishing group Hachette arranged by Morgan Guaranty, with Chase, CCF and Swiss Bank Corporation International acting as the other dealers.

A $100m programme for the Swedish tools group Aktiebolaget was arranged by Enskilda Securities with Citicorp acting as the other dealer.

In other financings, Caledonian Paper Mill, a subsidiary of Finland's second largest industrial group Kymmene, is arranging a £185m guarantee facility to back a leasing facility arranged by Lloyds Leasing to provide plant and machinery for a new £250m paper mill in Scotland. The guarantee is for 10 years, with a guarantee fee of 25 basis points and a commitment commission of 12.5 basis points. Union Bank of Finland is lead manager.

Taylor Woodrow, the UK engineering group, has signed a £100m multi-option facility with a £50m committed portion arranged by Hambros and Samuel Montague, which it has also appointed as dealers for a sterling commercial paper programme.

Hyundai Canada is the borrower in a $100m loan facility led by Manufacturers Hanover Asia to build a car plant in Canada.

Sanwa Bank and Bank of America have been elected to the task of jointly heading the steering committee of all bank lenders to Fecsa, the troubled Spanish utility. Negotiations with the borrower are expected to start shortly.

Telefonica extends US share offering

By David White in Madrid and William Hall in New York

TELEFONICA, the Spanish telecommunications utility which had its shares listed in New York on Friday, is extending its US share offering to a maximum of about $375m in view of heavy demand.

The semi-state company said the placing would be the biggest to date by any non-US group in the New York market.

The offering was extended from 45m shares to 48m and the Telefonica board gave last-minute approval for raising the total if necessary to 54m units.

The price, set after authorisation was received on Thursday from the Securities and Exchange Commission, was $20.875 per block of three shares, in American depositary form.

The offering, being underwritten by some 60 institutions headed by Goldman Sachs, Merrill Lynch and Salomon Brothers, will increase the foreign holding in Telefonica to about 22 per cent. The current legal limit set for the company is 25 per cent.

Mr Tom Tuit, a partner with Goldman Sachs, said the increase in size of the offering reflected US investor interest in "an undervalued security with an impressive management team."

The company's price/earnings ratio of around seven, based on US accounting principles, was considerably below the ratios of the US regional telephone companies and the yield was also higher, which had attracted investor demand.

In the first day of trading the American depositary shares of the company rose $1¼ from the offer price of $20⅞ to end the session at $22⅛.

FRENCH PRIVATISATION

SocGen offer marks break with tradition

SOCIETE GENERALE, the fourth largest French bank, today begins its FFr 22.4bn ($3.7bn) privatisation offer.

The flotation carries a certain symbolism, since it is the first time that the right wing Government of Mr Jacques Chirac has sold a company nationalised by its hero, General Charles de Gaulle, rather than by its Socialist predecessor.

It marks at least a partial break with the French tradition of using the banks as an arm of government industrial policy—a tradition seen in practice last month, when Societe Generale was roped in with its colleagues, BNP and Credit Lyonnais, into the restructuring of the trucks division of Renault, the state car group.

"You can climb very high without having to shout from the rooftops" is the slogan of Societe Generale's two-week offer for sale, which aims to play up the solidity of its achievement.

For the next fortnight, however, Societe Generale will have to swallow its own advertising jingle and shout its virtues from as many rooftops as it can find.

It has to contend with a distinctly jaded stock market — 11 per cent down from its peak 2½ months ago — and with signs that the French public is losing some of the appetite for privatisation shares that devoured the offers for sale of other French state sector companies such as Paribas or Societe Generale's own subsidiary, Sogenal.

A further irritation has come with reports that the bank stands to lose out in a dispute following a routine inspection by the French tax authorities. The daily newspaper Liberation claims the dispute could bring Societe Generale a tax bill for as much as FFr 600m, although this figure has not been confirmed.

Although there are some blemishes on Societe Generale's flotation, there is little reason for the bank's executives to become despondent.

First indications from international dealing rooms already suggest the shares will trade at a premium of around 15 per cent to the offer price of FFr 407, and the 6.9m shares reserved for overseas investors had already found enough takers before the offer opened.

The price set is viewed as being at the low end of expectations, and is only 4 per cent above the minimum value of FFr 21.5bn fixed by France's privatisation commission. It is also below the estimate of FFr 432 a share made by Cholet Dupont, Societe Generale's brokers.

The Government has also managed to find a wide range of institutions eager to join a hard core of investors. These institutions will pay a premium of 5 per cent and must promise to hold on to their shares for at least two years. Together they will control 20 per cent of the bank's capital.

They include groups that have been to the fore in the hard cores of many other French privatised companies, such as the state-owned insurance companies Assurances Generales de France and Groupe des Assurances Nationales, which will receive 1.1m shares each, some 2 per cent of Societe Generale's capital, and Compagnie Generale des Eaux, with 275,000 shares.

The Finace Ministry has sperad its net further afield, however, and two of the largest shareholders are foreign insurance companies. Commercial Union of the UK and Meiji Mutual Life will each receive 1.045m shares, while smaller stakes go to Spanish and Italian institutions.

Nor is the ministry taking any chances over the possibility of being caught short of shares to meet the demands of French investors, as it has ben in past privatisations such as that of Paribas.

By issuing free share warrants to existing shares and non-voting certificates of investment, Societe Generale has created a reservoir of potential new capital.

The Government, as the bank's current owner, will have the right through these warrants to subscribe to up to 4.57m new shares. It has indicated that it will use this right selectively in order to round off the number of shares allotted to individual subscribers.

Paris stockbrokers are relieved at this decision, remembering the chaos caused by the allocation of 1½ shares to subscribers to the privatisation offer of the small bank BIMP. Stock exchange rules meant that the single share and the half share had to be sold separately, doubling the paperwork and the expense.

George Graham

Swiss Merck to lift payout as profits leap

By John Wicks in Zurich

NET EARNINGS of Merck AG, parent of the Swiss-based chemical concern, jumped by some 76 per cent last year to SFr 23.4m ($15.6m). At the annual meeting to be held in Zug today, the board is to propose payment of a sharply increased 14 per cent dividend for bearer shares.

The total payout of SFr 21.4m compares with a dividend sum of SFr 11.2m for the previous year, when 7 per cent had been paid on a smaller capital.

The company, which controls most of the non-German operations of the Darmstadt-based E. Merck, last year raised capital from SFr 160m to SFr 300m, in part by the placing of 200,000 bearer shares with the public.

According to Dr Hans Joachim Langmann, the chairman, a further increase in bearer-share dividend will be made for 1987 on the back of higher 1986 income from subsidiaries, and one of 6 per cent for registered shares.

The Merck AG group as a whole last year showed a 7.7 per cent rise in its net profits to SFr 81.7m

New HK banking categories suggested

BY KEVIN HAMLIN IN HONG KONG

HONG KONG'S three-tier banking system, comprising licensed banks, registered, and licensed deposit-taking companies (DTCs), could be fundamentally changed if options on possible reforms to the industry, contained in a series of discussion documents to be released this week by the Commissioner of Banking, are put into effect.

The proposals for change are broadly aimed at evolving the regulatory system in line with changing financial markets, and at improving the territory's reputation as a financial centre, following a series of embarrassing bank collapses in recent years.

Six options for reform to the existing system are discussed in the paper. They include the introduction of a limited service banking licence, the grouping of all DTCs under one umbrella, a limited service licence for DTCs with exemptions from certain sections of the Banking Ordinance, and increases in minimum capital required by DTCs.

service banking licence would enable financial institutions to be present in the interbank and regional markets, but would not permit them to be involved in retail deposit-taking.

The licence would appeal to concerns that currently do not qualify for a bankin glicence because of their small size. Foreign banks need total assets of US$14bn to obtain a banking licence in Hong Kong.

The option to bring DTCs into one category would require all such concerns to meet existing paid-up capital requirements of HK$75m (US$9.6m) while restricting them to taking deposits of a minimum HK$500,000.

Licensed DTCs now meet those requirements, but registered DTCs require a minimum paid-up capital of HK$10m, and are restricted to taking deposits of a minimum HK$50,000.

Under this option, existing registered DTCs would be given a two-year grace period to meet new requirements, and a limited service DTC category might also be introduced. Such companies might be exempted from adhering to some requirements of the Banking Ordinance.

Other issues addressed include the increasing overlap of the securities and banking industries, and how companies involved in both activities should be most effectively supervised by different regulatory bodies.

Kuehne turnover declines

BY OUR ZURICH CORRESPONDENT

TURNOVER of Kuehne & Nagel, the international forwarding agent, dropped by 7.7 per cent last year to DM 4.55bn ($2.5bn), due largely to the fall in the dollar.

The company, owned jointly by the Kuehne family and Lonrho of the UK, nevertheless reports a "satisfactory business performance in view of difficult market conditions." Gross profits were down by only 1.2 per cent over 1985 to DM 684m, though net earnings fell by 14 per cent to DM 31m.

Within the overall results, Kuehne & Nagel Germany booked a slight decline in income in 1986 owing to lower income from ocean traffic.

Elsewhere, the Swiss-based Kuehne & Nagel International showed satisfactory earnings, but rather below the 1985 level.

Pennzoil may opt for split

BY OUR FINANCIAL STAFF

PENNZOIL, the Houston-based oil company which is locked in a $10.5bn legal battle with the far larger Texaco, is considering carving itself up into about four separately quoted units as one of a number of restructure proposals now being examined.

Officials refused to comment on suggestions that this might involve the sale of some businesses to Texaco as a means of resolving the dispute. Shares in both companies responded strongly on Friday to this idea, however, with Pennzoil up $2¾ to $86/ and Texaco—currently in Chapter 11 shelter from the lawsuit—rallying $⅜ to $38⅞.

Mr Hugh Liedtke, Pennzoil chairman, was quoted as saying at the weekend that it would "proceed fwit restructuring if it seemed that the litigation would continue over a "long drawn-out period."

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
US DOLLARS							
Victor Co. of Japan ¶	50	1994	7	(2⅞)	100	Yamaichi Int. (Eur)	*
Victor Co. of Japan ¶	100	1992	5	(1⅝)	100	Nomura Int (Eur)	*
Mitsubishi Chem. ¶‡	200	1992	5	1	100	Yamaichi Int. (Eur)	1.000
Canon Sales ¶‡	100	1992	5	1⅜	100	Yamaichi Int. (Eur)	1.375
Jardine Strat. Holdings §	200 (a)	—	—	8½	100	CSFB	*
Toyo Sash ¶‡	100	1992	5	1⅜	100	Nomura Int.	1.375
Hokuriku Bk. §‡	100	2002	15	1½	100	Yamaichi Int. (Eur)	1.500
Daiwa Danchi ¶	100	1992	5	(1⅝)	100	Nomura Int.	*
Blair Athol Fin. †	110	1994	6.7	15bp	100.15	CSFB	—
Matsuya Co. Ltd. ¶	50	1992	5	(1⅝)	100	Daiwa Europe	*
Kansai Prints ¶	60	1992	5	(1⅝)	100	Yamaichi Secs.	*
Taps Series IV †	130	1992	5	15bp	100.15	Bankers Trust Int.	—
Tokyu Corp. ¶	150	1992	5	(1⅞)	100	Yamaichi Int. (Eur)	*
Pacific Dunlop §	75	1997	10	(6½–7)	100	CSFB	*
GMAC ‡	200	1989	2	8⅛	100⅞	UBS (Secs.)	7.781
Nikkan Chemicals ¶	50	1992	5	(1⅝)	100	Daiwa Europe	*
Glory Ltd. ¶	60	1992	5	(1⅝)	100	Yamaichi Int. (Eur.)	*
D-MARKS							
Council of Europe ‡	150	1997	5	6⅛	113½	BHF Bank	3.214
SWISS FRANCS							
Yonekyu Corp. **‡	10	1992	—	4⅝	100½	Long-Term Credit Bk. Japan	4.700
Sunstar Inc. **§	55	1992	—	(½)	100	Credit Suisse	*
Takio Inc. **§	80	1992	—	(⅝)	100	Credit Suisse	*
Sullivans Mines Ltd. §	25	1995	—	(5¾)	100	Banque Indosuez	
Province of Quebec ‡	200	2003	—	5	100	Credit Suisse	5.000
Den Norske Credit Bank φ	50	1994	—	2½	(d)	Bk. Gutzwiller, KB	*
Toyo Tire and Rubber Co. Ltd. ‡	60	1992	—	4¾	100	UBS	4.750
City of Copenhagen **‡	40	1993	—	4½	100	UBS	4.500
City of Copenhagen **‡	40	1994	—	4⅝	100¼	UBS	4.622
STERLING							
SMAC Mortgage Notes 1 Plc. †	150	2017	30	25bp	100	S.G. Warburg Secs.	—
Bell Group NV §	75	1997	10	(5)	100	SBCI	*
Amsterdam Rotterdam Bk. ‡	50	1992	5	8⅞	100½	Samuel Montagu	8.742
Banca Nazionale del Lavoro ‡	50	1992	5	9¼	101⅝	J. Henry Schroder Wagg	8.834
SEK ‡	50	1992	5	9⅛	101¾	Warburg Securities	8.679
LUXEMBOURG FRANCS							
Arbed SA ‡	600	1995	8	7½	100	Bqe. Gen. du Luxembourg	7.500
Scandinavian Airlines Systems **‡	300	1994	7	7⅜	100¼	Svenska Handelsbk.	7.328
ATLAS Copco AB **‡	300	1992	5	7⅜	100	Bqe. Gen. du Luxembourg	7.375
Union Bank of Finland **‡	300	1990	3	7	100	BIL	7.000
AUSTRIAN SCHILLINGS							
Republic of Austria	1bn	1997	10	6⅝	(d)	GZB	*
ECU							
Swedish Export Credit ‡	50	1994	7	7½	101⅝	Daiwa Europe	7.196
Wacoal Corp. ¶	80	1992	5	(1½)	100	Bqe. Paribas Cap. Mkts.	*
YEN							
Denmark ‡	10bn	1991	4	8	115⅛	Mitsui Fin. Int.	3.848
State Bk. of Victoria ‡	30bn	1992	5	4⅝	101¾	Yamaichi Int. (Eur.)	4.353
Eurofima ‡	20bn	1994	7	4⅝	101⅛	Mitsubishi Fin. Int.	4.474
Oesterreichische Landesbank ‡	5bn	1992	5	7½	101¾	Yamaichi Int. (Eur.)	7.072
Royal Trustco (b)	12bn	1992	5	(c)	100	Yamaichi Int. (Eur.)	*
Royal Trustco	7bn	1992	5	(e)	101¾	Yamaichi Int. (Eur.)	*
NEW ZEALAND DOLLARS							
Federal Business Dev. Bank ‡	50	1989	2	18¼	101¼	Wood Gundy	17.497
CANADIAN DOLLARS							
Deutsche Bank Finance NV ‡	100	5	5	9⅝	101	Deutsche Bk. Cap. Mkts.	9.400
Royal Trustco Ltd. ‡	100	1992	5	10¼	101⅛	UBS Securities	9.954
AUSTRALIAN DOLLARS							
Nord LB Fin. Curacao NV ‡	50	1991	4	13¾	101⅝	Nord LB	13.201
Christiania Bank ‡	30	1990	3	14⅛	101⅝	Bayerische Vereinsbk.	13.879
Eurofima ‡	75	1994	7	13½	101⅝	Bayerische Vereinsbk.	12.984
Toronto Dominion Aust. Ltd. ‡	50	1990	3	14½	101½	Hambros Bank	13.856
Sanwa Aust. Leasing ‡	30	1992	5	14⅜	101¾	Sanwa Int.	13.867
NV Nederlandse Gasunie ‡	75	1989	2	14⅛	101¼	Citicorp Investment Bk.	13.372

* Not yet priced. ‡ Final terms. ** Private placement. ¶ With equity warrants. § Convertible. † Floating rate note. φ With gold call and put warrants. (a) 200,000 Convertible cum preference shares with a nominal value of 1,000 each. (b) Dual currency. (c) In NZ dollars. 9¾ first year, then linked to bank bill mid-rate. (d) Not yet disclosed. (e) First year 1⅝ rising in step to 7½. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.70	6.64	6.77	11.34	5.71
Three-month Treasury bills	5.54	5.68	5.96	6.25	5.01
Six-month Treasury bills	5.86	6.01	6.25	6.36	5.06
Three-month prime CDs	6.95	6.99	7.03	7.25	5.46
30-day Commercial Paper	6.80	6.85	6.83	7.70	5.55
90-day Commercial Paper	6.85	6.95	6.90	7.05	5.45

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	9.4	+1	8.17	8.35	8.25
20-year Treasury	107⅛	+1½	8.60	8.76	8.68
30-year Treasury	102¾	+1⅝	8.49	8.65	8.60
New 10-year "A" Financial	n/a	0	9.30	9.30	9.65
New "AA" Long utility	n/a	+1¼	9.50	9.63	10.00
New "A" Long industrial	n/a	+1¼	9.50	9.63	9.95

Source: Salomon Bros (estimates).

Money Supply: In the week ended June 1 M1 fell by $4.4bn to $753.7bn

NRI TOKYO BOND INDEX

December 1983 = 100	11/6/87	Performance index: Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	141.06	3.84	140.90	138.05	131.30
Government Bonds	143.09	3.31	143.31	139.46	132.11
Municipal Bonds	140.48	4.56	140.27	138.81	131.69
Governmental-guaranteed Bonds	141.33	4.63	141.14	139.84	132.36
Bank Debentures	135.28	3.48	135.15	132.52	127.75
Corporate Bonds	138.20	5.07	138.09	136.33	129.94
Yen-denominated Foreign Bonds	139.60	6.05	139.50	136.83	132.40
Government 10-year†	4.08	—	4.13	4.83	5.40

† Estimated par yield.

Source: Nomura Research Institute.

US MONEY AND CREDIT

Trade figures spark late rally

AFTER marking time for much of last week the US government bond market sprang to life on Friday when the long bond jumped by close to two full points an long-term government yields slid through the 8.5 per cent level, ending the week at their lowest in six weeks.

The Venice summit was a non-event as far as the US credit markets were concerned. The New York Times concluded that it did "no harm and very little business" and many analysts would agree with Sir Geoffrey Howe, the British Chancellor of the Exchequer who described the meeting as "group therapy for finance ministers."

President Ronald Reagan stressed that he and the other six heads of state had had a "comfortable and productive" meeting in Venice which had taken *"important steps" in the* economic sphere.

"The Summit Seven have put the capstone on a new process for enhanced cooperation and coordination and have agreed jointly to take the policy steps necessary to assure sufficient world growth," the President said.

The credit markets were unimpressed. The meeting did not produce needed initiatives, but none were expected, said Salomon Brothers. Dr Henry *Kaufman, who attributes the* improved sentiment in the credit markets to last Friday's better-than-expected May producer price figures and somewhat improved trade figures for April. While all the cautionary words about the dangers of reading too much into one month's data were being spoken, the figures have helped calm fears of a resurgence in US inflation and raised hopes that the long-delayed turn round in the US trade balance may be showing through at last.

The mood in the credit markets has also been helped by the new-found stability in the dollar which ended the week at Y143.90 and DM 1.8066, which compares with its low point six weeks ago of under Y139 and around DM 1.7650. The sharp rise in US interest rates in April coupled with substantial central bank intervention has stabilised the US currency for the moment. Salomon Brothers says in its latest comments on credit that "the markets are likely to continue to take encouragement from these developments, although the fundamental long-term trends in both inflation and trade have not improved much."

The improved sentiment in the US Government bond market has been reflected in the corporate debt market, where yields on new issues dropped by more than 10 basis points last week and new issue activity accelerated with First Boston's data showing a 20 per cent increase in new issues of fixed income securities to $4.45bn last week.

Among the new corporate securities that sold well, according to Smith Barney, were a $250m offering of 20-year notes for Marriott Corporation, carrying a 9⅝ per cent coupon, and a *similar-sized 10-year issue for* Hoechst Celanese, carrying a 9.45 per cent coupon with a seven-year call feature. The latter was priced at par and increased in size while the Marriott offer, which has no early call features, was priced at 99.827 to yield 9.402 per cent.

US banks continue to show a hefty appetite for new capital. Chase Manhattan raised $275m of 10 per cent 12-year subordinated capital notes at a yield of 10.036 per cent and Chemical New York Corporation issued $300m of similar maturity paper on a 9¾ per cent coupon to yield 9.81 per cent. Both banks are rated A3 by Moody's and paid close to 150 basis points above comparable Treasury issues. Sovran Financial, a fast-growing regional banking group which is less than a quarter of the size of the two New York money centre banks, raised $100m of 12-year 9⅝ per cent subordinated capital notes on an effective yield of 9.81 per cent, or 125 basis points above the comparable Treasury issue.

The finance companies of the big US car makers were also active last week, with GMAC raising $300m of five-year 8⅝ per cent notes at a yield of 8.7 per cent and Chrysler Financial selling $516m of five-year securities backed by a pool of car loans. Carrying an 8.3 per cent coupon, the issue was priced to yield 8.49 per cent, or 82 basis points above comparable US government paper.

* * *

The following statistics are due to be released this week, and market expectations were surveyed on Friday by Money Market Services of Redwood City, California.

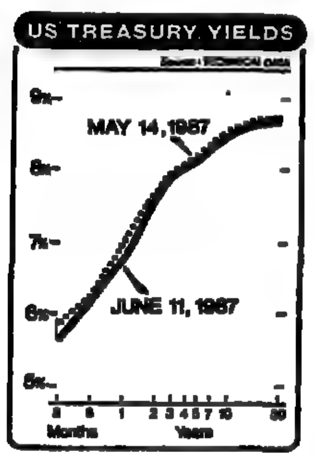
● Housing starts, due tomorrow, are expected to have fallen in May because of *higher mortgage rates and high vacancy* levels. The median estimate from 42 analysts is for starts to have dropped from a 1.7m seasonally adjusted annual rate in April to 1.65m last month. Estimates range from 1.6m units to 1.75m units.

● After declining for the previous couple of months industrial production in May, due tomorrow, is expected to have risen 0.4 per cent and the 42 estimates ranging from a rise of 0.8 per cent to a decline of 0.2 per cent.

● The revised gross national product (GNP) data for the first quarter of 1987, due on Wednesday, is expected to show that the US economy grew at an unchanged 4.4 per cent annual rate in the opening months of this year. Estimates range from a growth rate of 4.2 per cent to 4.8 per cent. This compares with growth rates of 2.8 per cent and 1.1 per cent in the third and fourth quarters of last year.

● Personal income and consumption figures for May, due on Thursday, are expected to show further growth. Personal income is estimated to have risen 0.5 per cent and personal consumption is estimated to have risen 0.2 per cent. The personal income estimates range from a rise of 0.2 per cent to 0.9 per cent and expectations for personal consumption range from a decline of 0.3 per cent to a rise of 0.4 per cent.

● Money supply figures for the week ended June 8, due on Thursday, are forecast to be unchanged with expectations ranging from a drop of $5bn to an increase of $4bn.



William Hall

UK GILTS

Looking for crucial foreign inflows

WELL, it is all over. The real opinion poll last Thursday showed Mrs Margaret Thatcher's Government substantially maintaining its lead over the Opposition parties, and the UK government bond market can now properly contemplate its prospects.

Gilt-edged dealers as well as the Bank of England will be holding their breath this week, with the focus firmly on the exchange rate and the incidence (or not) of fresh inflows into British securities after the surprisingly large majority for the Government.

The evidence so far suggests that the gilt market is not a clear one-way bet, although this has to be heavily qualified. The election result was so clearly *and categorically discounted* that profit-taking was an obvious strategy on Thursday night and Friday. There was also a sense of understandable tiredness on Friday after a long night for the inter-dealer brokers, the Bank, and the majority of market makers.

In addition, the first day of Mrs Thatcher's third term coincided with an upward blip in the dollar which mitigated any positive action from sterling.

Most primary dealers seem pretty confident that foreign inflows will materialise, most likely gradually over the next few weeks. Overseas buying is even more crucial than it has been in normal circumstances *because of the authorities'* policy of capping sterling's strength. After something of a breather during the latter stages of the election campaign, the Bank could again be faced with a strong pound and the dilemma of intervening against it, so increasing the need to fund in the gilt market, or cutting base rates.

Even on the current state of play, the authorities will be keen to get more funding completed after a hiatus (the bulk of the 8 per cent 2002/06 tap stock still remains unsold) during the campaign. The authorities will raise close to £1.2bn over the next three weeks through cash calls on partly paid gilts. Another potential burden on the sterling fixed interest sector could be a revival of issuance in the Eurosterling market — there were four issues last week totalling £300m—and now that electoral uncertainty has been removed, there could be many more.

It is the supply burden which is the key factor in the way of substantially lower yields. *Another is the reluctance of the* Bank of England to allow interest rates to fall too far because of domestic considerations. Consumption looks set to roar ahead with the injection of cash from mortgage rate cuts, tax cuts et al.

Then there is the "glacier of liquidity." How low do interest rates have to go before the ice starts to melt? To the extent that deposits are held by institutions as part of portfolios, the argument runs that any positive real interest rate should be enough to stop those deposits being liquidated. However, deposits held by individuals in building society accounts and banks could well be cashed in with some of that money going into consumption. The uncertainty about all this is one surefire reason for caution on lowering borrowing costs.

Money market rates already discount another half point cut in base rates to 8½ per cent.

Goldman Sachs says a strategy of turning generally bearish at 8½ per cent gilt yields and generally bullish at 9 per cent may pay good long term dividends. James Capel does not expect the violent swings seen after the 1983 election and says yields gently trending down and consolidating around 8½ per cent in the year future looks realistic. Greenwell Montagu says yields are not likely to approach 8 per cent unless the Bank of England has to allow base rates to fall significantly below that level to combat flows into sterling.

Mr Michael Hughes of BZW reckons yields will shift only moderately downwards to a range of perhaps 8½ per cent to 9¼ per cent from the current range of 8½ per cent to 9 per cent. There should be much more scope for further rises in equity prices. Salomon Brothers' Mr Malcolm Roberts points out that inflation adjusted longer term gilt yields are in line with the average of other major government bond markets, limiting the scope for *a rally from current levels.*

All in all, after the massive rise in the market this year already, the next few weeks could be relatively dull in terms of yield movements. And there are no opinion polls to look forward to.

Janet Bush

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN Bank 8½ 91	250	97⅞	+0¾	9.15
Aetna Life & Cas 7⅞ 16	200	94	+0⅞	8.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon. CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on June 12.



Paul Marber (left) and Sir Keith Stuart: Aldwych House (centre) is the first child of their companies' marriage

A mix of flair and finance

One company, AB Ports, had the assets. The other, Grosvenor Square Properties, had development experience. Paul Cheseright examines how they are exploiting their assets

ALDWYCH HOUSE, a large grey office building at the end of the Strand in the West End of London, is the first child of the marriage between Associated British Ports Holdings and Grosvenor Square Properties—a £25m child adopted for cash.

For Sir Keith Stuart, the chairman at AB Ports, the purchase was a natural consequence of its new aggression in the property sector following its takeover last November of GSP. It was a deal which combines, as he puts it, "the entrepreneurial flair of GSP and the finance of AB Ports."

AB Ports, which until 1983 was the nationalised ports operator, wants to build up property earnings so that they account for 50 per cent of group profits. GSP is the chosen instrument to do it.

At first sight, the two could not be more different. AB Ports is used to a steady cash flow from 19 ports with staff scattered around the country. GSP, with a mere 22 people, is like most property developers, lean and accustomed to a world of lumpy profits. But they needed each other.

When AB Ports was privatised four years ago it had 7,000 acres of land, of which 2,500 acres were, or would soon become, available for redevelopment. It had no experience of the property world—indeed it had not been permitted to use its land for anything other than port purposes.

It started to come to terms with this massive land asset by starting joint ventures — AB Ports would put in the land, a developer would put in the expertise: Tarmac at Cardiff, Rosehaugh at Southampton and so on. But it was "development passive," says Sir Keith.

What had been done was worthy and useful, "but it could not be the right long-term answer to the way we develop the company," asserts Sir Keith.

So the search started for a ready-made development company. It had to have a track record. It had to have a property portfolio which slotted in with that of AB Ports so that the overall group would have a better balance. And the acquisition had to be an agreed one — "we were not interested in a hostile contested bid — that would have been counter-productive," says Sir Keith.

On the other hand, GSP had been worrying about expanding its capital base. "In relation to the development programme—£100m—the company was too small," recalls Paul Marber, the chairman. It had become increasingly concerned about the general increase in bank borrowing attached to property projects rather than property companies.

When the approach came from AB Ports, "it struck a sympathetic note," he says. AB Ports had enormous land resources. It was a substantial group with low borrowings and it wanted to expand. Further, it was not a property company—less danger, therefore, of personality clashes.

So the two came together in a £14.9m AB Ports agreed takeover. And now they have started to try and make the marriage work.

Essentially, the locking together has come at the top. Marber has joined the AB Ports main board. Two AB Ports directors have gone on the board of GSP. But AB Ports Holdings already had its own property subsidiary, ABP Properties. So two GSP directors went on that board too.

The key fact to emerge was that GSP would be held on a loose rein. "It would not be a good thing to wipe away the separate identity of GSP. Rather the opposite. We want to promote the esprit of GSP. So we're keeping it as a subsidiary, with its own structure, salary systems and so on," says Sir Keith.

"The management style being evolved—its delegation—is in tune with our traditional management style. The operations of the ports are in the hands of managers. With them we'll agree budgets. Once that's agreed, and provided the manager is performing to target, the degree of operational freedom is immense.

"Similarly there's no difficulty for us in saying to GSP, 'you are the development arm, you do it your own way'," Sir Keith adds.

The operations of the partners nonetheless have to be meshed, though not entirely. AB Ports, for a start, is a long-standing estates manager, with a team long experienced at collecting the rents around the ports. GSP will have nothing to do with that.

"There's a difference between operational land and surplus land," explains Marber. "On developments the intention is that GSP will manage and stimulate development. We'll retain the existing joint ventures. The relationships there will remain the same. We're not seeking to re-write history."

What is clear though is that AP Ports does not necessarily need to have joint ventures. GSP will be the driving force behind new ventures, on or off AP Ports land, in addition to expanding the portfolio. And that is where the purchase of Aldwych House came in.

GSP, though, has been putting together a group to concentrate on the port properties, to identify and work a project up to a point where a decision can be made on how to implement it. "In the main we expect to carry them out ourselves," Marber says, noting, however, that the company had not been expert in residential or leisure development.

So joint ventures will be used in the future when there is a need for specialist company involvement. Where residential development is part of a scheme, a housebuilder would be brought in—similarly with marinas, where AB Ports will be seeking to capitalise on the values that stem from any waterfront development.

The main corporate vehicle will be ABP Properties, which will be "something of a clearing house, to identify the opportunities," says Sir Keith.

But these opportunities are broadly conceived. "The type of development we'd feel most at home with would be offices, where GSP has experience, retail certainly, leisure and maritime obviously," he says.

None of this stops GSP carrying on with the activities it had followed as an independent company. Sir Keith made clear that GSP will be operating within liberal constraints. Indeed, in May, GSP bought an industrial site at Epsom in Surrey where it intends to construct nine industrial-warehousing units.

The location is important here. It points to one of the attractions of marriage from the AB Ports point of view. The portfolio of GSP properties has given the group a foothold it did not have before in the south-east of the country.

In some respects, GSP will be able to operate more flexibly than when it was independent. At the end of 1986 AB Ports had nil gearing. It is eminently credit-worthy and has the size to negotiate the keenest of financing terms. GSP should find access to capital easier and cheaper.

The way developments are financed will influence the investment posture of the group. "This will take time to evolve," concedes Marber. Here the decisions are basically whether to hold a property or sell it, a wholly new game for AB Ports as a group. In the past GSP has tended to sell on. Now there is a choice. If a property is held the level of immediate profits is reduced—that affects stock market sentiment but it allows the creation of a revenue stream.

In the case of Aldwych House, AB Ports has bought to hold because the revenue stream can be made to flow more strongly as rent reviews increase the income. The purchase was evidence that the group is changing gear.

Ports revamp now finished

NET PROPERTY income at AB Ports has been building up—£5.5m in 1985 and £6.4m in 1986. But the scale of the ambition to build up property income to the same level as that for the port activities is considerable. The operating profits from port services were £20.3m last year and that was after taking out £3.7m for voluntary severance payments.

The group's expansion of its property interests is a natural consequence of the fact that work on revamping the ports has by and large been finished and that recovery from the coal dispute and the dock strikes of 1984 is complete. The least sung of the privatised groups, the market capitalisation of AB Ports has multiplied around tenfold since 1983.

Its landholdings are based on 19 ports, of which only Southampton is in the area most favoured by the property developers—the South East.

Property portfolio

GROSVENOR SQUARE PROPERTIES had net assets of £6.7m when it was taken over by AB Ports. Its development programme, once completed, would have a value of £100m.

It brought to AB Ports some 25 property projects including an office building in the City of London, the refurbishment of the London Pavilion in Piccadilly Circus, a new entertainment complex for Madame Tussaud's and a small speciality shopping centre in Bath. Just the sort of property ventures, in fact, that AB Ports did not have.

Its profits were dictated by the way in which its projects came on stream, so it had a loss of £78,000 in the year to March 1986 following a pre-tax profit of £1.08m for the previous year.

The company was floated on the USM in 1984. The £14.9m AB Ports paid to acquire it was about 20 per cent more than its market capitalisation.

Why the American dream is obsolete

Michael Skapinker on the demolition of a myth

IN AMERICA you can be anything you want, Lee Iacocca's imigrant father told him. The younger Iacocca worked hard and rose to become president of Ford. When he was fired, he rescued Chrysler from bankruptcy and wrote a best-selling autobiography telling Henry Ford II to get lost.

A classic story of the triumph of the American entrepreneurial spirit? No, an outmoded myth, says one academic — a myth which endangers the future of the US economy.

Robert Reich of the John F. Kennedy School of Government at Harvard University notes that admiration for the American entrepreneurial hero is as old as the country itself.

"We like to see ourselves as born mavericks and fixers," he writes in the latest issue of the Harvard Business Review*. "Our entrepreneurial drive has long been our distinguishing trait. In a world of naysayers and traditionalists, the American character has always stood out — cheerfully optimistic, willing to run risks, ready to try anything.

"Stories of entrepreneurial heroism come from across the economy and across the country: professors who create whole new industries and become instant millionaires; youthful engineers who quit their jobs, strike out on their own, and strike it rich. In the American economic mythology, these heroes occupy centre stage. Prosperity for all depends on the entrepreneurial vision of a few rugged individuals."

There is only one problem with this vision: it is obsolete. "The economy it describes no longer exists. By clinging to the myth, we subscribe to an outmoded view of how to win economic success," Reich says.

Moreover, he adds, this outmoded view endangers America's economic future, for a number of reasons:

- In today's global economy, the ideas dreamt up by US entrepreneurs travel easily. Foreign competitors often have no difficulty appropriating new American concepts, adapting, improving and using them.
- The machines that Americans use to execute their ideas are equally footloose. Process technology moves around the globe in search of the cheapest labour and the friendliest markets.
- Some of America's competitors, notably Japan, have succeeded in creating a system in which engineers, managers, production workers, marketing and sales people work together, eliminating the old distinction between entrepreneurs and ordinary employees.

In terms remarkably similar to those used by observers of British industry, Reich notes that "Americans continue to lead the world in breakthroughs and cutting-edge scientific discoveries. But the big ideas that start in this country now quickly travel abroad, where they not only get produced at high speed, at low cost, and with great efficiency, but also undergo continuous development and improvement. And all too often, American companies get bogged down somewhere between invention and production."

Americans face two choices, he says. Either they can attempt to match the low wages and high discipline prevailing in other countries, or they can compete on the basis of how quickly and well they transform their ideas into products. Only the second option is at all realistic, he says. The catch is that the US cannot rely on lone entrepreneurs to achieve it.

So what should America do? The answer can already be found in the workings of the country's most successful companies, which practice collective, rather than individual entrepreneurship. In these companies, salespeople understand what designers and engineers are capable of. Vertical hierarchies are broken down and employees are encouraged to innovate rather than follow the rules.

These companies exist, but their stories do not generally capture the public imagination. The bookshops are still full of volumes paying homage to the American chief executive. "We will need to look for and promote new kinds of stories. We need to look for opportunities to tell stories about American business from the perspective of all the workers who make up the team, rather than solely from the perspective of top managers. The stories are there—we need only change our focus, alter our frame of reference to find them."

**HBR, PO Box 25, AA Maarn, The Netherlands. Reprint No. 87309.*

UK COMPANY NEWS

David Thomas on the takeover struggle between Apricot and Wordplex

The two visions finely balanced

TWO OF the more spectacular casualties of Britain's mid-1980s high tech slump, **Apricot Computers** and **Wordplex Information Systems**, are locked in a takeover struggle, whose outcome should become clearer today.

Wordplex shareholders are due to vote on the re-financing package put together by the company before Apricot launched its £14m hostile bid for the company last week.

At stake is the future of Wordplex, the Slough-based text processing company, once considered one of Britain's brighter high tech hopes, but whose performance has varied from the lacklustre to the disastrous since it received a full listing in 1984.

The Wordplex story is a familiar one among many of the UK's smaller electronics companies—of ambitions outstripping resources. In 1985 the company piled up overheads, not just in the UK but in expensive overseas markets like the US, in anticipation of sales of its new flagship product, the 8000 text-processor—sales of which were slow to materialise.

Pre-tax profits of £2.24m on sales of £42.78m in 1984 turned into losses of £3.19m on sales of £44.53m the next year. Debts piled up to the point where it now boasts 270 per cent gearing. The old management was swept away, replaced by a new team which saw its prime job as stopping the company from going under.

Mr John Heywood, who moved in as executive chairman, set about cutting stocks and debts to the point where the company may break even at the pre-tax level this year. But his main task was to come up with the finance and the strategy which would give Wordplex a secure future.

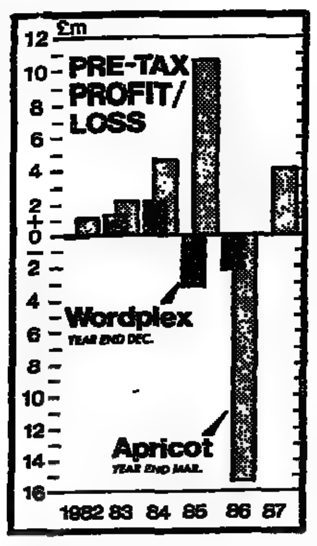
Last month, Mr Heywood announced the result of his year-long search for a solution; a £12.3m financing package which would bring gearing down to 60 per cent at most, after allowing for some pruning of the company still to be carried out, he says.

A placing of shares, arranged by Close Investment Management, would raise £3.6m; an 11-for-10 rights issue would contribute a further £5.7m; and there would be revised banking facilities including subscription to £3m preference shares.

He also unveiled a new management team provided by Octagon Industries, a management services concern specialising in the information technology field. Octagon draws on a network of senior executives, many of whom have impressive track records in high tech industries.

Dr Geoff Bristow from Octagon, who would become the new Wordplex chairman in September, has come up with a new strategy. This would centre on building up its revenues from the higher margin services and maintenance side of the business. But Dr Bristow and Wordplex will first have to fight off Apricot.

The Apricot bid for Wordplex is a clear signal from its



management that it believes its troubes are behind it. Ultra-competitive conditions in the personal computer market forced a change of tack on the Birmingham - based computer company early last year after its profits had taken a dive.

It abandoned its low end personal computer range, launched a new, more upmarket IBM-compatible line and said it wanted to concentrate more on computer services and systems, and less on shifting boxes.

Last week, Apricot reported a return to profits for the year ended March 31 1987—£4.04m on sales of £71.16m, compared with losses of £15.38m on sales of £90.56m the previous year. Analysts are expecting profits of about £8m this year

Mr Roger Foster, Apricot chief executive, knows what he wants with Wordplex: its impressive customer base in the finance sector, law firms and public authorities who use its top-end word processing machines. These are backed by a large direct sales force and a profitable maintenance operation.

Acquiring Wordplex's sales force and customer base would help Apricot push its products into larger companies: its strength at present is in small-to medium-sized companies. Its ultimate aim would be to make all its products available to Wordplex customers, though it would probably start by offering its desktop publishing system.

Apricot is less interested in Wordplex's products as such, though it insists it will maintain the range as long as customers want them. It would complete Wordplex's withdrawal from loss-making activities abroad and would consider merging the manufacturing at Slough with manufacturing in Scotland.

Apricot's bid — 18 Apricot shares for every 10 Wordplex or a cash alternative of 130p —forced a revision to the Wordplex refinancing package last week.

Wordplex shareholders are now being offered a 14.5-for-10 rights issue and would be able to retain 87.5 per cent of the equity, against 75 per cent under the original package. The earnings per share targets which would trigger the right to exercise share options by Octagon personnel have also been strengthened.

Mr Mike Whitaker, analyst at Chase Securities, which is advising clients holding about 20 per cent of Wordplex but which does not hold any Wordplex shares itself, is still backing the Apricot bid. But he adds: "since Wordplex and Octagon have changed the terms, it's become a much closer decision."

Other analysts also think key elements in the two visions of Wordplex's future are finely balanced. A County NatWest circular last week said: "There is little to choose between the newly installed Octagon management and Apricot—in their different ways both are good and should make a reasonable job of turning Wordplex round."

However, majority opinion among analysts is that Wordplex's shareholders will plump for the take-over: "Apricot's cash offer offers an easy exit for a number of shareholders who've been in Wordplex for a while and are not pleased. Apricot paper still looks risky, but it offers better expected returns," according to Mr Bruce McInroy, analyst at Hoare Govett.

Even so, the Wordplex-Octagon camp says the response from institutional shareholders has left it confident of winning. Whether that confidence is justified should be clear by the end of today.

Mitchell Cotts hits back at £74m bid

By Nikki Tait

MITCHELL COTTS, the engineering, chemicals and trading company, has hit back at the £74m paper-only offer from acquisitive industrial holding group, Suter, describing this as "inadequate and unrealistic" and criticising the lack of a cash alternative.

However, Suter said yesterday it was not impressed, and pointed to the absence of any profit forecast.

Yesterday, Mr Roderick Paul, chief executive of Mitchell Cotts, said that no forecast had been made yet because "we started off with Mr Abell (Suter's chairman) bidding blind." He added that a forecast was being prepared.

MC argues that since the end of 1985, it has "undergone a fundemental change in both its management structure and corporate strategy."

It points to the reduction in overseas exposure—particularly South African and stresses "an accelerated disposals programme"—activities are concentrated on speciality chemicals, engineering products, transportation and specialist engineering consultancy.

"It is no use Suter assuming that it can sort out MC's foreign operations by selling them most quicqly. Certain of foreign assets are vital for MC's core businesses and should not be sold."

The defence document has the backing of the board, other than Mr Tony Alcock, the finance director, who is currently discussing terms on which he might leave the group following a "personality clash." Mr Paul yesterday refused to elaborate on the reasons behind that.

MC last week extended four directors' service contracts by one year to June 1990 — part of the normal annual review in which the three-year contracts are rolled forward one year, according to Mr Paul.

Suter's three-for-10 terms value Mitchell Cotts' shares at 78p against 69½p in the market; its offer reaches the first close next Saturday.

Law firm cited in T & N damages case

BY TERRY POVEY

ONE OF the UK's top law firms has been cited as a defendant by Hill Samuel in the court action in which the merchant bank, along with stockbroker Cazenove, faces a damages claim that could total £40m.

Hill Samuel acted as financial adviser to AE in its defence against a hostile £280m bid from Turner & Newall—a hard fought battle that stretched over five months to mid-December.

Clifford Turner, the law firm which acted as legal advisers to Hill Samuel in the course of this bid, was recently joined as a third-party defendant by the merchant bank in a court case arising from this controversial bid.

In January, T&N announced that it was pursuing a hefty damages claim—estimates range up to £40m — against Hill Samuel, Cazenove and AE. Some time later T&N dropped its claim against AE.

However, T&N's case against the bank and the broker is proceeding. Recently Hill Samuel, which denies it acted illegally and is vigorously contesting the T&N damages claim, brought Clifford Turner into the case, citing the lawyers as a third-party defendant.

In the event that the court finds against Hill Samuel, the bank has, now that it has cited the lawyers as a third party, the option of claiming that it acted in good faith on Clifford Turner's advice—and in effect that some or all of the blame and liability for damages belongs to the lawyers.

After being cited as a defendent in the case, Clifford Turner has informed its insurers that up to £40m of its professional indemnity cover is now at risk.

T&N finally won control of AE in early December.

In one of its most toughly worded judgments, the appeals committee of the Takeover Panel censored Hill Samuel and Cazenove for their roles in an indemnity arrangement and for not declaring share purchases by friendly parties.

FT Share Information

The following securities have been added to the Share Information Service: Caler Group (Section: Oil & Gas), **Cambridge Instrument** (Electricals), **Cambridge Isotope Laboratories** (Chemicals), **Chelsea Artisans** (Third Market), **Chuang's Consortium** (Electricals), **Confibel Holdings** (Oil & Gas), **Deeflex** (Chemicals), **Priest Marians 6½pc Cnv. Uns. Loan Stk. 2000-03** (Property), **Select Appointments** (Industrials), **United Plantations Africa** (Overseas Traders).

Monks & Crane placing

BY DAVID WALLER

Monks & Crane, the USM-listed engineering tool distributor, yesterday announced a £2.9m placing for cash with a 100 per cent clawback facility for existing shareholders.

Monks will issue 1.98m new shares at 151p. These have all been conditionally placed with clients of Albert Sharp, the stockbrokers, but existing shareholders can subscribe for any number of new shares up to a maximum of three new shares for every 20 held.

Mr John Juggins, Monks' finance director, said yesterday that the money raised would be used to cut borrowings, which at £2.1m amounts to 77 per cent of shareholders' funds, and to finance acquisitions.

The placing would also have the effect of broadening the company's shareholder base, Mr Juggins said. To this end, the directors of the company and SUMIT plc, who togeher own 36.7 per cent of the undiluted equity, will not be taking up their rights, thereby reducing their holding to a total of 17.6 per cent.

Monks' management bought the company from Thorn EMI in 1983 and joined the USM in December 1985. It made £2.01m pre-tax profits in 1986-87 on turnover of £28.6m.

Whittington Eng. purchase

BY RICHARD TOMKINS

Whittington Engineering, a Chesterfield-based metal fabricator, said it was to buy J. W. Bonser, a privately-owned Midlands diecasting company, for up to £2.6m.

It also proposed a one-for-three underwritten rights issue to raise £1.1m net through the issue of 660,000 ordinary shares at 190p each. It existing shares closed at 205p, unchanged on the day.

Whittington underwent a change of management last November after several years of stagnant profits. The new management said on Friday that steps taken to reverse the core company's earlier downturn in activity were not yet evident in trading performance, but it viewed the future with confidence.

The Bonser vendors will receive an initial £650,000 in the form of Whittington shares, half of which they will realise in cash through a vendor placing. Up to £1.95m more will be payable in cash if Bonser meets certain profit levels over the next three-and-a-half years.

ADWEST GROUP has disposed of the entire share capital of Steelfab to Mr Eric Moore and Mr Leonard Reece, directors of Steelfab. Consideration was £31,495.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims: Bilck, City Site Estates.

Finals: Aitken Hume, Alexon, Apricot Computers, Chamberlain Phipps, Dominion International, Erskine House, Freshbake Foods, Harmony Leisure, Harrison Industries, Hunting Group, Hunting Petroleum Services, Southwest Resources, Sterling Publishing.

FUTURE DATES

Interims—

Bermuda Intnl. Bond Fund ...	June 26
Electronic Data Processing ...	June 23

Finals—

Anchor International Fund ...	June 25
BTP ...	June 25
Bespak ...	July 22
Gold Greenlees Trott ...	June 16
M.L. Holdings ...	June 18
Paul Michael Leisurewear ...	June 16
S & U Stores ...	June 16

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
*Argyll Group...	June 25	Final 5.1
*BPB ...	June 25	Final 5.5
BET ...	July 17	Final 12.0
*BT ...	June 18	Final 4.5
Birmid Qualcast...	July 1	Interim 1.25
*British Gas ...	June 17	Final due
*Cable and Wireless...	June 24	Final 6.0
Charter Cns ...	June 25	Final 7.75
Dixons ...	July 16	Final due
*Ferranti ...	July 1	Final 1.15
Greycoat ...	June 25	Final 1.25
Guinness ...	June 16	Interim 2.24
Hogg Robinson...	July 8	Final 5.23
*Johnson Matthey...	June 16	Final 2.0
London Intl ...	June 19	Final 3.1
*Magnet and Southerns...	June 17	Final 3.2
*Meyer Intl ...	June 16	Final 3.8
*Northern Foods...	June 16	Final 5.75
*Racal Electronics...	June 23	Final 2.38
Rank Organisation...	July 17	Interim 6.75
Rothmans Intl	June 24	Final 4.5
Rothschild (J.)...	July 1	Final 12.8
Scot and Newcastl Breweries...	July 1	Final 4.82
*TSB ...	June 25	Interim due
Thorn EMI ...	July 10	Final 12.5
*Trusthouse Forte...	June 25	Interim 1.33

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

UK COMPANY NEWS

Nikki Tait looks at the pressures on the underwriting commission structure

Hardliners' case still holds sway

FIRST, brokers' commissions. Now underwriting fees?

To suggest that the City revolution is leaving none of the sacred cows untouched would be pushing the point. But pressures on the deeply-ingrained commission structure — whereby institutional investors agree to pick up unwanted shares in new equity issues for a certain rate — are in evidence.

Last week, WPP — as part of its audacious $460m bid for JWT Group — introduced a two-tier sub-underwriting commission structure on its conditional £177m rights issue. The institutions will get more than the traditional rate if the bid succeeds and the cash call goes ahead; *if the offer fails, they* get a much lower rate for doing nothing.

The deal is innovative — the first rights issue which has departed from tradition on this scale. But it comes in the wake of other developments. Privatisation issues have already broken the mould on flotation costs. Other alternative structures have been achieved on smaller bid-related issues.

And one of the most forthright institutions, M & G, recently offered to do a suitable traditional rights issue for lower rates if other would join it.

The traditional sub-underwriting rates — 1.25 per cent for the first 30 days and ⅛ per cent per week thereafter — have held sway for decades. Moreover, they have applied across the board regardless of why the paper was for sale — a new issue, a bid-related offering or just traditional cash-raising. But, as Mr David Tucker, the M & G director who voiced the unit trust group's stance points out, the risks of the issue *failing differ* significantly.

They also, he adds, differ from 30 years ago, when institutions could fairly claim that that they were being paid for bearing the private shareholder risk. Today, institutions own 75 per cent of the equity market and the issuing bank may well reserve one-quater to one-third of the issue for itself, effectively taking on the private investor element.

"Why should we pay ourselves to take up equity?", argues M&G.

As far as underwriting fees on the first two types of issue are concerned, modest inroads into the standard 1.25 per cent have already been made.

The spectacular success of privatisation, coupled with political pressures against feeding avarious mouths in the City, made it inevitable that someone would seek to swing lower rates. In the event, it was the TSB (not strictly a privatisation) which near-halved the total underwriting rate to 1.175 per cent, out of which the sub-underwriters got just 0.75 per cent.

But that remains something of an exception: although underwriting rates have been pared back, the sub-underwriting terms on the likes of Rolls-Royce and British Airways have remained at 1.25 per cent—at least on the provisional placing and commitment shares, which are the ones the institutions are not guaranteed to receive.

The extension of non-standard rates into bid financing is also gaining credence. WPP's brokers, Panmure Gordon, tackled the not-inconsiderable problem of sub-underwriting a £177m issue for a company with a £130m market capitalisation and which was planning to create a merged group with an asset deficiency of £59m, by assembling four institutions— Warburg Investment Management, the Pru, Commercial Union and Globe Investment Trust — who together agreed to take around 15 per cent of the potential issue.

The remainder was then spread amongst some 200-250 clients. There was, claims Mr Pat O'Reilly, Panmure's head of corporate finance, little turn-down in spite of WPP's less-than-blue chip status. But he admits the commission structure — just ⅛ per cent if the bid fails, but 2½ per cent for the first 30 days and ⅛ per cent thereafter if it succeeds — must have helped."

The advantages to WPP are considerable. It can afford to make such a cheeky bid which, if pursued, may run on for months, without worrying unduly that bid costs will clobber profits should its offer finally fail. The company has a near-5 per cent stake in JWT, which is showing a $10m profit —and that should certainly foot a losing underwriting bill.

WPP's sub-underwriting arrangements are the first on this scale, but they are not entirely unique. Samuel Montagu, introduced a two-tier structure for a limited number of 'core underwriters' last year, when its client, Argyll, put together financing arrangements in its £2.3bn Distillers bid. That route was then followed b ya number of other predators, including Norton Opax.

In a much smaller league, Panmure points to the recent £16m Sunleigh-Dale Electric bid. Here the sub-underwriting structure was similar to WPP's, with the losing rate pruned to ⅛ per cent and 3 per cent offered for success (though 2½ per cent actually achieved). Sunleigh, too, was minnow with big ideas. "This allows small companies to bid for bigger ones," points out Mr O'Reilly.

The snag, as institutions are amply aware, is that this permissive financing can give them a vested interest in a bid's success—witness McCorquodale's unsuccessful complaints to Norton Opax over the Kuwait Investment Office's dual role.

Where underwriting costs have remained largely inviolate is on conventional rights issues —non-bidrelated variety. "The institutions are still very firm here," admits Panmure. "They make us very aware of what they require."

But Mr Tucker's suggestion has not fallen entirely on deaf ears. "My initial response is that this would be worth thinking about," remarks Mr John Maclachlan, chairman of the National Association of Pension Fund's investment committee. The Pru, too, has indicated that it sees some merit in discussing M & G's proposals.

Hardliners argue that companies contemplating rights issues will vary the discount—the level below the market price at which the shares are issued —according tothe riskiness of the issue. Moreover, they point out that discounts, since Big Bang, have generally narrowed.

Those really wishing to avoid underwriting costs are directed towards 'deep discount' issues, where the risk of failure is non-existent and no underwriting is done — a path followed by the Pru and NatWest recently.

And, on the slightly less conventional cash-raising front, there has been some movement. For example, Hillsdown Holdings, which made a £154m *placing* for cash—not related to any specific bid—last October, managed to prune sub-underwriting costs on those shares where directors guaranteed not to claw back to ¼ per cent.

But for all the pressures, the hardliners' case still holds general sway. And in many investors' minds, it will continue to do so until Mr Tucker's is actually proved.

Amal. Financial stake moves

BY PHILIP COGGAN

Shares in Amalgamated Financial Investments rose 10p to 44p on Friday after news that a 22 per cent stake in the company had been bought by a Swiss-based company, Trade Administration.

Amalgamated is an investment holding company formed when Jersey-based Dove Holdings reversed into Amalgamated Tin Mines of Nigeria in 1982.

In October last year, HDFI, an Australian financial group which is one of Mr Lee Ming Tee's business interests, took a 22 per cent stake, introduced Mr Richard Wollenberg and announced plans to pass investment opportunities to Amalgamated.

HDFI has now sold that stake to Trade Administration but it is unclear whether this is just a shift within the Lee Ming Tee empire. Sunmark Corporation, which brokers believe is also connected with Mr Lee Ming Tee, has an 11.6 per cent stake in Amalgamated.

Somic ahead

Somic, a kraft paper spinner and weaver, lifted pre-tax profits from £99,131 to £131,544 on turnover virtually unchanged at £3.29m (£3.28m) in the year to March 31 1987.

However, the directors said that the failure of the company's Baronet Motor Accessories subsidiary to meet its turnover and profits targets had been a major disappointment. In the six months to September 30 last year Somic profits fell from £53,362 to £10,692, a drop which the company at the time blamed on Baronet's losses.

Profits in the second half rose from £46,500 to £120,852. They proposed an unchanged final dividend of 1.5p, making an unchanged total of 2p for the year.

After tax of £48,832 (£28,500) earnings worked through up from 3.532p at 4.136p.

FINANCIAL TIMES STOCK INDICES

	June 12	June 11	June 10	June 9	June 8	June 5	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	92.70	92.64	92.70	92.75	92.13	92.15	93.32	84.49	127.4	49.18
Fixed Interest	98.79	98.84	98.42	98.31	97.95	98.01	98.84	90.23	150.4	50.53
Ordinary	1767.9	1740.8	1752.2	1761.3	1727.2	1727.9	1767.9	1320.2	1767.9	49.4
Gold Mines	409.3	399.2	398.8	388.7	395.5	398.3	485.0	288.2	734.7	43.5
FT-Act All Share	1138.39	1119.63	1121.81	1124.99	1109.39	1109.93	1138.39	835.48	1138.39	61.92
FT-SE 100	2289.5	2249.3	2256.1	2265.2	2228.4	2228.8	2289.5	1674.5	2289.5	986.9

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 12 1987					THURSDAY JUNE 11 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (94)	137.74	+1.4	123.62	127.66	3.05	135.87	121.24	126.15	140.95	99.92	89.91
Austria (16)	87.49	-0.7	78.52	82.05	2.30	88.14	78.65	82.06	101.62	85.94	84.99
Belgium (47)	117.17	-0.9	105.16	108.65	4.43	118.22	105.49	108.60	123.62	96.19	76.66
Canada (127)	127.15	+0.3	114.11	123.33	2.38	126.76	113.11	123.18	136.17	100.00	99.58
Denmark (39)	120.45	+0.2	108.10	111.40	2.49	120.23	107.29	110.34	124.10	98.18	97.49
France (122)	109.11	-0.2	97.92	103.51	2.70	109.36	97.58	102.84	121.82	98.39	80.01
West Germany (90)	91.25	-1.0	81.89	85.94	2.19	92.17	82.25	85.94	100.33	84.00	85.25
Hong Kong (45)	119.12	+1.4	106.90	119.40	2.88	117.52	104.86	117.79	119.12	96.89	70.68
Ireland (14)	128.03	-0.6	114.90	121.98	3.70	128.84	114.97	121.56	131.86	99.50	83.66
Italy (76)	99.45	-0.2	89.25	97.44	1.87	99.67	88.94	96.77	112.11	94.76	84.65
Japan (458)	159.45	-1.1	143.10	144.94	0.46	161.25	143.89	145.25	161.28	100.00	79.26
Malaysia (36)	169.27	-0.5	151.91	162.24	2.33	170.15	151.83	163.17	172.55	98.24	80.33
Mexico (14)	236.49	+4.5	212.23	336.26	0.66	226.35	201.98	320.49	236.49	99.72	50.17
Netherland (38)	117.55	-0.5	105.50	109.40	4.08	118.18	105.46	108.93	120.14	99.65	89.39
New Zealand (27)	98.91	+1.5	88.77	88.65	3.00	97.41	86.92	88.06	100.59	83.93	67.92
Norway (24)	138.41	-0.9	124.21	125.35	2.02	139.65	124.61	126.05	140.05	100.00	99.03
Singapore (27)	141.87	-0.2	127.32	138.13	1.77	142.19	126.88	138.16	144.47	99.29	72.26
South Africa (61)	165.48	+0.8	148.51	120.59	3.39	164.24	146.56	119.69	186.74	100.00	70.07
Spain (43)	114.73	+0.4	102.97	109.30	3.72	114.25	101.95	108.24	121.31	100.00	81.49
Sweden (33)	114.30	-0.1	102.58	106.48	2.18	114.46	102.14	106.20	124.68	90.85	87.38
Switzerland (51)	92.01	-0.9	82.57	85.56	2.02	92.82	82.82	85.39	104.06	92.01	82.32
United Kingdom (335)	150.68	+1.1	135.23	135.23	3.15	148.97	132.93	132.93	150.68	99.65	97.35
USA (593)	123.52	+1.0	110.85	123.52	2.94	122.32	109.15	122.32	124.06	100.00	102.67
Europe (928)	120.64	+0.3	108.27	111.41	2.89	120.32	107.36	110.29	121.61	99.78	89.16
Pacific Basin (687)	157.09	-1.0	140.98	143.27	0.61	158.64	141.56	143.46	158.64	100.00	79.32
Euro-Pacific (1615)	142.55	-0.6	127.93	130.57	1.39	143.34	127.91	130.23	143.34	100.00	83.21
North America (720)	123.71	+0.9	111.02	123.53	2.91	122.55	109.36	122.38	124.60	100.00	102.50
World Ex. US (1817)	142.31	-0.5	127.71	130.16	1.44	143.03	127.63	130.16	143.09	100.00	83.62
World Ex. UK (2075)	133.41	-0.1	119.73	127.24	1.84	133.55	119.17	126.76	133.55	100.00	90.50
World Ex. So. Af. (2349)	134.76	+0.0	120.94	128.00	1.96	134.74	120.23	127.35	134.76	100.00	91.21
World Ex. Japan (1952)	123.31	+0.7	110.67	119.48	2.91	122.42	109.24	118.33	123.31	100.00	96.73
The World Index (2410)	134.95	+0.0	121.11	127.97	1.97	134.93	120.40	127.32	134.95	100.00	91.08

Base values: Dec 31, 1986 = 100

CONSTITUENT CHANGES—Deletions: Carling O'Keefe and Husky Oil Com NPV (Canada); Interfirst, Texas Commerce Bank and Viacom Int. (US); Exel Group and Combined English Stores (UK). NAME CHANGES: Sporthuis Centrum to Centre Parcs NV (Netherlands) and Republicbank Corp. to First Republicbank Corp. (US).

EUROPEAN OPTIONS EXCHANGE

Series		Aug 87 Vol.	Aug 87 Last	Nov 87 Vol.	Nov 87 Last	Feb 88 Vol.	Feb 88 Last	Stock
GOLD C	$460	70	16.10	18	32	2	42	$457.70
GOLD C	$480	62	10.50	119	21	—	—	"
GOLD C	$500	72	6.50	18	14.60	5	22	"
GOLD P	$420	45	3.80					"

TOTAL VOLUME IN CONTRACTS: 40,759

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	● Charterhouse Bank	9	Nat Bk. of Kuwait	9
Adam & Company	9	Citibank NA	9	NatWestminster	9
Allied Arab Bk Ltd	9	City Merchants Bank	9	Northern Bank Ltd	9
Allied Dunbar & Co	9	Clydesdale Bank	9	Norwich Gen. Trust	9
Allied Irish Bank	9	Comm. Bk. N. East	9	PK Finans. Intl (UK)	10
American Exp. Bk	9	Consolidated Crdt	9	Provincial Trust Ltd	10

LONDON RECENT ISSUES

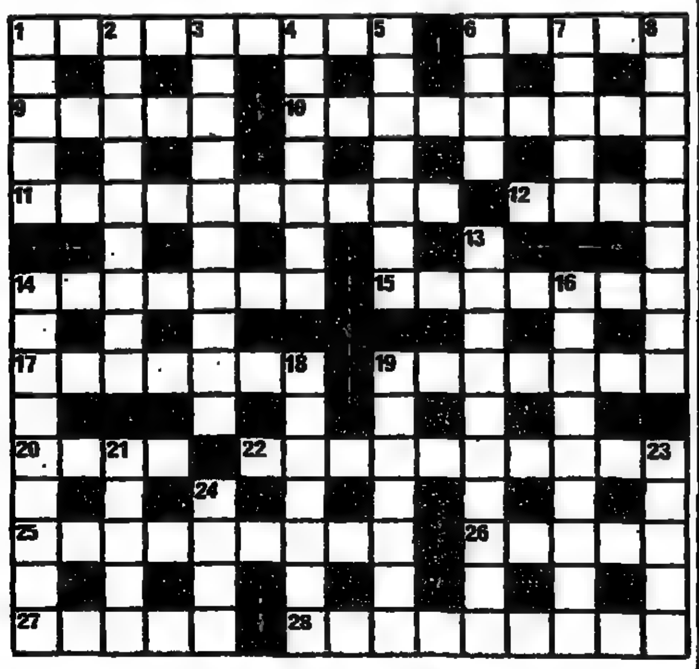
EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

FT CROSSWORD PUZZLE No. 6,352

QUARK



ACROSS

1 Abolish extra run? (9)
6 Rover with number confused (5)
9 Yarn Ellis construed (5)
10 Applauds, as louse, for example, is beaten (9)
11 *A cure is never as good as this* (10)
12 Advance payment made in a gallant endeavour (4)
14 It's stupid returning to month in heart of cricket season! (3-4)
15 Accommodation at the top for a Head? (4,3)
17 More than just drunk? (7)
19 Could start train set in action (7)
20 There's a chance of injury from search when leader goes (4)
22 To be acceptable Spurs team's changed (4,6)
25 Rocky *land is universal* within extremities of area in Spain (9)
26 Did the account for the man (5)
27 Stroke regarded as a gamble? (5)
28 Charlie wasn't an old one (9)

DOWN

1 Animal is by the edge (seen in field) (5)
2 Whitechapel man, say, needs rate to be varied (9)
3 Noted support for the production (5,5)
4 Associated with spacecraft having teeny Rolls Royce in movement (2-5)
5 *Rich spring's no longer* available (4-3)
6 To drink nothing is futile (2,2)
7 Parent and offspring can do some building (5)
8 Paint disease (9)
13 One minute lap to be broken? Need to use skill (10)
14 Note liar's fiddled the written statements (9)
16 Thought about American gallery in hoax (9)
18 Amasses knowledge in the library (5,2)
19 Game consumed with a will (7)
21 Plant used Germanium — an essential part (5)
23 Jockey — on the balance for weigh-in? (5)
24 A pocket often has this extra something (4)

The solution to last Saturday's **prize puzzle will be published with names of winners next Saturday.**

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Mercury Fund Managers Ltd (c)
33 King William St, EC4R 9AS 01-280 2860

American Growth	106.4	112.5xd	-0.1	1.65
(Accum Units)	111.5	117.9xd	-0.1	1.65
British Blue Chip Fund	51.3	54.2xd	+0.1	2.31
(Accum Units)	51.3	54.2xd	+0.1	2.31
American Sm Cos Fd	50.0	52.9	+0.2	0.46
(Accum Units)	50.0	52.9	+0.2	0.46
American Income	50.7	53.6	+0.3	4.33
(Accum Units)	55.2	58.4	+0.3	4.33
European Growth	135.2	143.0	+0.8	0.62
(Accum Units)	139.9	148.0	+0.8	0.62
European Income	78.7	83.2	+0.1	3.64
(Accum Units)	80.0	85.5	+0.1	3.64
General	357.5	378.5	+2.0	1.97
(Accum Units)	593.9	628.4	+3.4	1.97
Gilt	90.9	91.3xd	-0.3	7.04
(Accum Units)	108.1	108.6xd	-0.4	7.04
Global Fund	49.5	52.3xd	-0.1	0.71
(Accum Units)	49.5	52.3xd	-0.1	0.71
High Interest Fund	48.8	51.6xd	+0.0	8.92
(Accum Units)	48.8	51.6xd	+0.0	8.92
High Income Fund	50.5	53.4xd	+0.1	4.93
(Accum Units)	51.4	54.5xd	+0.1	4.93
Income	115.2	121.8xd	+0.8	3.44
(Accum Units)	132.1	139.7xd	+1.0	3.44
International	296.5	313.7	-2.0	1.10
(Accum Units)	[illegible]	[illegible]	-2.2	1.10
Japan	235.6	249.3	-1.8	0.53
(Accum Units)	241.9	255.9	-1.9	0.53
Pacific Fd	51.8	54.8	+0.2	0.10
(Accum Units)	51.8	54.8	+0.2	0.10
Recovery	290.4	307.3xd	+1.2	1.97
(Accum Units)	315.8	334.1xd	+1.3	1.97

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance—Contd.
Pension Fund Prices

Managed Ind.	322.5			—
Do. Accum.	393.4			—
Property Ind.	240.8			—
Do. Accum.	293.6			
Equity Ind.	412.2			—
Do. Accum.	501.8			—
Gilt-Edged Ind.	240.6			
Do. Accum.	293.4			—
Guaranteed Ind.	157.2			—
Do. Accum.	191.8			—
International Ind.	515.1			—
Do. Accum.	627.6			—
Index Lk. Gilt Ind.	140.9			—
Do. Accum.	171.7			—

Merchant Investors Assurance
Leon House, 233 High St, Croydon 01-686 9171

Property	298.8	+0.1	—
Property Pens.	392.8	+0.1	—
Equity	186.3	+1.6	—
Equity Pens.	846.1	+2.5	—
Money Market	320.4	-0.3	—
Money Mkt. Pens.	571.6	-0.4	—
Deposit	235.4	+0.0	—
Deposit Pens.	373.6	+0.2	—
Managed	282.6	+0.5	—
Managed Pens.	541.9	+1.6	—
Intl. Equity	331.2	+0.9	—
Do. Pens.	531.6	+0.9	—
Intl. Managed	305.8	+0.7	—
Do. Pens.	450.2	+1.4	—
North American	125.6	+0.4	—
Do. Pens.	142.5	+0.7	—
Far East	297.0	+1.1	—
Do. Pens.	430.4	+1.7	—
Intnl. Currency	174.8	-0.7	—
Do. Pens.	228.7	-1.5	—
Index Linked	131.8	-0.7	—
S & C Managed Fd	141.1	+0.1	—
S & C Pens Mngd Fd	114.6	+0.1	—

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986
NUAM Funds

Managed Fund	56.4	59.4	-0.1	—
Stock Market Mngd Fund	57.5	60.6		—
Equity Fund	63.0	66.4	-0.1	—
International Fund	52.8	55.6		
European Fund	54.2	57.1	+0.3	—
North American Fund	47.6	50.2	-0.1	—
Pacific Fund	66.2	69.7	-0.2	—
Property Fund	51.4	54.2	+1.0	—
Fixed Interest Funds	53.4	56.3	+1.0	—
Index linked Sec Fund	46.6	49.1	-0.5	—
Deposit Fund	52.2	55.0	+1.0	—

NUAM Retirement Plans

Mixed Fund	59.7	62.9		—
UK Ordinary Share	70.5	74.3		—
International Fund	54.3	57.2		—
Property Fund	51.4	54.2		—
Fixed Interest Fund	53.6	56.5		—
Index Linked Sec Fund	46.6	49.1	-0.5	—
Deposit Fund	52.2	55.0		—

NUAM (NF)

Managed Fund	769.5	810.0	-1.0	—
Equity Fund	1670.7	1758.7	-0.1	—
Property Fund	313.9	330.5		—
Fixed Interest Fund	383.7	403.9	+0.6	—
Deposit Fund	206.0	216.9		—
International Fund	137.0	144.3	+0.1	—
Index Linked Sec Fund	46.5	49.0	-0.7	—

Norwich Union Life Insurance Soc.
PO Box 4, Norwich NR1 3NG 0603 622200
Pensinvestor* & Unit-Linked Plus*

Fixed Interest Fund	267.4	281.4		—
Index-Linked Sec Fund	134.1	141.1		—
Ordinary Share Fund	512.7	539.6		—
International Fund	138.3	145.5		—
Property Fund	160.4	168.8		—
Deposit Fund	163.7	172.3		—
Mixed Fund	331.8	349.2		—
Norwich Units May 15		472.9		

*Prices as at June 2.

Pearl Assurance (Unit Funds) Ltd
252 High Holborn, London WC1V 7EB 01-405 8441

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
14Jan	14July	Treas 3pc 1987	99[illegible]	8.6	3.01	7.77
3May	3Nov	Treas. 12pc 1987	101[illegible]	29.9	11.[illegible]	8.17
26 Jul	26 Jan	Treas 7¾pc 1985-88	99[illegible]	22.12	7.78	8.36
10Nov	10May	Exch 10½pc '88	101[illegible]	6.10	10.32	8.36
24Dec	24Jun	Treas 9¾pc Cv '88	101[illegible]	8.5	9.63	8.36
1Jan	1Jul	Transport 3pc '78-88	96[illegible]	26.5	3.10	6.31
25 Apr	25 Oct	Treas. 9½pc '88	101[illegible]	18.9	9.38	8.47
22 Aug	22 Feb	Treas 11½pc 1989	104[illegible]	16.1	11.00	8.53
18 Oct	18 Apr	Treas 9½pc Cnv 1989	101[illegible]	11.9	9.36	8.56
15Nov	15May	Treas 3pc 1989	94[illegible]	9.10	3.18	6.15
14Dec	14Jun	Treas 10½pc 1989	103[illegible]	8.5	10.14	8.51
1Feb	1Aug	Exch 10pc 1989	102[illegible]	29.12	9.73	8.54
29 Mar	29 Sep	Exch 11pc 1989	104[illegible]	26.8	10.49	8.57
15 Apr	15 Oct	Treas 5pc 1986-89	95[illegible]	8.9	5.25	7.39
15 May	15 Nov	Exch 10¼pcCv '89	107[illegible]	9.10	9.56	6.91
15 Jul	15 Jan	Treas 13pc 1990‡‡	110[illegible]	8.6	11.84	8.70
12 Aug	12 Feb	Exch 11pc 1990‡‡	105[illegible]	6.1	10.46	8.76
22 Sep	22 Mar	Exch. 12½pc 1990	109[illegible]	18.8	11.47	8.77
8 Nov	8 May	Treas. 3pc 1990	91[illegible]	2.10	3.29	6.40
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	99[illegible]	11.5	8.26	8.31
25 Apr	25 Oct	Treas. 10pcCv 1990	103[illegible]	18.9	9.66	8.77
22 May	22 Nov	Exch 2½pc 1990	89[illegible]	16.10	2.82	6.16
10 July	10 Jan	Treas 11¾pc 1991	109[illegible]	3.6	10.79	8.80
5Oct	5Apr	Funding 5¾pc '87-91‡‡	94[illegible]	1.9	6.09	7.44
13 Nov	13 May	Treas. 3pc 1991	88[illegible]	—	3.40	6.43
12Jan	12July	Treas 10pc Cv '91 ‡‡	109[illegible]	5.6	9.16	7.42
25Apr	25Oct	Exch. 11pc 1991	108[illegible]	18.9	10.23	8.80
22Jly	22Jan	Treas 12¾pc 1992‡‡	115[illegible]	26.12	11.14	8.87
21Aug	21Feb	Treas 10pc 1992	105[illegible]	15.1	9.50	8.84
13Oct	13Apr	Treas. 8pc 1992 ‡‡(£50pd)	48	—	8.15	8.47
7 [illegible]	7 May	Treas 10½pc Cv 1992‡‡	107[illegible]	8.10	9.87	8.86

Five to Fifteen Years

Over Fifteen Years

Undated

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Dividends Paid	Stock	Price	Last xd	Div Gross	C'vr	Y'ld Gr's
—	Microcomputer Mems.	1p	—	—	—	—
—	Molex Inc.	27¼	—	2c	—	—
Jan Ap Jly O	Morgan (JP) $2.5	30[illegible]	07.12	$2.72	—	5.6
F May Au N	NYNEX $1	40[illegible]	26.3	$3.48	—	5.2
Ja Ap Jy Oct	PHH	29[illegible]	6.1	$1.04	—	2.6
Feb My Ag Nv	Pacificorp $3.25	23[illegible]	15.10	$2.40	—	6.9
—	Pacific Telesis $0.10	15[illegible]	12.05	$1.64	—	6.5
Fe My Au No	Pall Corp. 25c	18[illegible]	28.10	34c	—	1.1
Mar Jun S D	Pennzoil 83c	50[illegible]	24.2	$2.20	—	2.7
F Apr Au N	Pillsbury‖	28[illegible]	28.4	$1.00	—	2.4
Jly Oc Jan Apr	Quaker Oats $5	31[illegible]	18.3	80c	—	1.5
My Ja Se De	RJR Nabisco Inc.	32	5.5	$1.60	—	3.1
Jan Apr Jly O	Rep NY Corpn $5	29[illegible]	10.6	$1.16	—	2.4
Mar Jun S D	Rockwell Intl. $1	15[illegible]	04.5	$1.32	—	5.1

Continued on next page

Money Market Bank Accounts

	Gross	Net	Or Equiv CAR	Int Cr
ANZ Finance High Interest Cheque Acc. Minerva Hse, Montague Cl, London, SE1 01-378 2576				
£250-£2,500	7.90	5.77	7.36	Qr
£2,500+	9.00	6.77	9.32	Qr
Adam & Co. plc 22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	8.20	6.00	8.64	Qr
Aitken Hume 30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	8.25	6.21	8.71	Qr
[illegible]	[illegible]	6.02	8.48	Mth
Min. Int. Chq. £5,000+	8.25	6.21	8.73	Mth
AAB—Allied Arab Bank Ltd 97-101 Cannon St, London, EC4N 5AD 01-626 2046				
HICA, HICMA	8.75	6.58	9.30	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc	8.10	6.09	8.59	Mth
Barclays Prime Account PO Box 125, Northampton 0604 252891				
High Int. Cheque	7.875	6.00	8.40	Qr

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Continued

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Oc Ja Ap Jly	Sara Lee $1	27⅜xd	24.12	$1.00	—	2.3
Mr Ju Se De	Saul (B. F.) $1	9⅛	7.4	20c	—	1.3
Fb My Ag No	Southwestern Bell $1	23	7.4	h$2.32	—	6.2
—	Staley Continental	15¾	—	80c	—	3.1
Mr Ju Se De	Sun Co. Inc. $1	39⅜xd	6.11	$3.00	—	4.6
Ma Ju Se Dec	TRW Inc. $1¼	31½xd	10.2	h$1.60	—	3.1
Mr Jn Sp Dc	Tenneco $5	29⅜	12.5	$3.04	—	6.4
June Dec	Do. 10pc.Ln.Stk. 91-5	182½xd	24.11	10%	—	5.6
Mr Je Se De	Texaco $6.25	22⅞xd	31.7	$3.00	—	8.0
Mr Jn Se De	Time Inc. $1	57½	22.8	$1.00	—	1.1
Ja Ap Jy Oc	Tracor $0.33	12½	16.9	40c	—	2.0
Ja Ap Ju Oc	Transamerica $1	21xd	31.3	$1.76	—	5.1
Fe My Au No	Transworld Corp $5	10⅜	11.11	20c	—	1.1
—	TRINOVA Corp.	40⅝	12.04	h$1.00	—	1.5
Mr Je Se De	USX $1	18⅝	30.10	$1.20	—	4.0
Ag Nv Fb Jn	Union Carbide $1	17⅛	5.5	$1.50	—	5.3
Mr Je Sp De	Utd. Technologies	29⅞	19.5	$1.40	—	2.9
Fb My Ag No	US West$	30⅝	13.4	$3.28	—	6.6
—	Waste Management $1	24	—	—	—	—
—	Whirpool $1.0	£21¼	—	—	—	—
Mr Je Se De	Woolworth $3½	31⅞	19.11	$1.32	—	2.5

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
—	Abbot Energy Corp.	20p	—	—	—	—
—	Amer. Barrick Res.	22¼	—	—	—	—
—	Armeno	96p	—	—	—	—

BANKS, HP & LEASING

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

INSURANCES

LONDON SHARE SERVICE

INSURANCES—Continued

LEISURE

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Continued

Tins

Miscellaneous

THIRD MARKET

Stock	Price		Div Net	C'vr	Y'ld Gr's	P/E
Corton Beach 10p	88	27.6	0.4	♦	0.6	♦
Crown Eyeglass 5p	190	—	—	—	—	—
Edengarig Investment	225	—	—	—	—	—
Eglinton Oil & G 5p	30	—	—	—	—	—
Do. Warrants	19	—	—	—	—	—
Publishing Hldgs.5p	49	—	—	—	—	29.4
Theme Holdings	51	27.4	1.0	♦	2.7	♦
Unit Group	140g	—	R4.6	2.5	4.5	10.0

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed, dealings permitted under Rule 535(4)(a).
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¤ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ☆☆ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xε ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	83	+2	Fin. 13% 97/02	£112	......
Craig & Rose £1	£161¼	......	Arnotts	333	......
Finlay Pkg. 5p	89	+2	CPI Hldgs	57	......
Holt (Jos) 25p	955	+3	Carrol Inds.	140	......
IoM Stm. £1	118	......	Dublin Gas	18	......
			Hall (R. & H.)	184	......
IRISH			Heiton Hldgs.	32	......
Fund 11¼% 1988	£100⅜	......	Irish Ropes	160	+5
Nat. 9¾% 84/89	£98½	......	Unidare	375	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	40	NEI	12
Amstrad	20	Nat West Bk	65
BAT	55	P & O Dfd	65
BOC Grp	45	Plessey	22
BSR	17	Polly Peck	28
BTR	30	Racal Elect	24
Babcock	19	RHM	39
Barclays	52	Rank Org Ord	70
Beecham	50	Reed Intnl	45
Blue Circle	50	STC	39
Boots	25	Sears	15
Bowaters	50	TI	34
Brit Aerospace	55	TSB	10
Brit. Telecom	32	Tesco	55
Burton Ord	35	Thorn EMI	70
Cadburys	22	Trust Houses	24
Charter Cons.	40	Turner Newall	28
Comm Union	30	Unilever	300
Courtaulds	45	Vickers	20
FNFC	30	Wellcome	42
Gen Accident	95	**Property**	
GEC	24	Brit Land	25
Glaxo	200	Land Securities	45
Grand Met	55	MEPC	42
GUS 'A'	175	Peachey	45
Guardian	90	**Oils**	
GKN	30	Brit Petroleum	32
Hanson Tst.	15	Britoil	
Hawker Sidd	50	Burmah Oil	45
ICI	125	Charterhall	6
Jaguar	52	Premier	11
Ladbroke	40	Shell	110
Legal & Gen	32	Tricentrol	11
Lex Service	45	Ultramar	24
Lloyds Bank	50	**Mines**	
Lucas Inds	62	Cons Gold	95
Marks & Spencer	22	Lonrho	26
Midland Bk	55	Rio T Zinc	90
Morgan Grenfell	35		

A selection of Options traded is given on the London Stock Exchange Report Page.

CONSTRUCTION CONTRACTS

Business park at Weybridge

WILLETT, a member of the building and civil engineering division of the Trafalgar House Group, has been awarded contracts worth £18.6m.

Largest, worth £8.2m, is for redevelopment of an estate and car parks to form a hi-tech business park. The new development, for Limco, is at Addlestone Rd, Weybridge, Surrey, and is due for completion in 49 weeks. It *comprises nine self-contained* industrial units grouped in five buildings.

For Oxford University, Willett is to build a £5.3m complex for the Institute of Molecular Medicine at the John Radcliffe Infirmary, Oxford. At Basildon in Essex a £2m contract has been awarded for a new CRS distribution centre. Willett is to fit out a satellite department store for Marks & Spencer in Harrow, Middlesex. The contract, worth £700,000, is due for completion in 16 weeks.

At Brooklands Industrial Park, Oyster Lane, Byfleet, Surrey, Willett has been awarded a further contract on the site for a third stage spine road development. Awarded by Oakimber, it is worth £1m. For Barclays Bank the company is to refurbish the High St, Epsom branch in Surrey. Valued at almost £300,000, the 30-week contract is due for completion in November.

Two smaller contracts have a combined value of £100,000. The first is for a laboratory within existing buildings for Grants of St James's at Slyfield Industrial Estate, Moorfield Rd, Guildford, Surrey. The second, for the Commission for New Towns, involves remedial work to community buildings at Magpie Crescent, *The Poplars*, Stevenage.

★

ELLIOTT MEDWAY CONSTRUCTION, part of Falcon Industries, has received orders from the Central Electricity Generating Board for buildings at Sizewell "B" power station. Worth over £8m, the work comprises amenity building, bedroom blocks, offices, document store, canteen, laboratory, first-aid centre, fire station, ablution blocks, induction centre and energy information centre. It will take about 11 months, starting in the autumn.

Renovating Lutyens House

Under a £30m contract many of the important features of Lutyens House, a Grade II listed building on Finsbury Circus in the City of London—recently renamed in honour of its architect Sir Edwin Lutyens (1869-1944)—are to be retained, including the stone facade and the grand marble lined entrance hall and staircase, during refurbishment by TAYLOR WOODROW MANAGEMENT CONTRACTING for Greycoat group.

The building, completed in 1927 for the Anglo-Iranian Oil Company (now called the British Petroleum Company), is five-sided and, when renovated will provide 195,000 sq ft of air-conditioned office space. An eighth floor will be added and the roof rebuilt.

Demolition of the core of the building will leave the facades, plus sections of the existing floor slab, at several levels to provide structural stability. Listed rooms on the the first floor, plus the chairman's office suite at fourth-floor level will be renovated, while the boardroom, currently on the fourth floor, will be moved to the basement where it will be rebuilt and renovated using existing materials wherever possible.

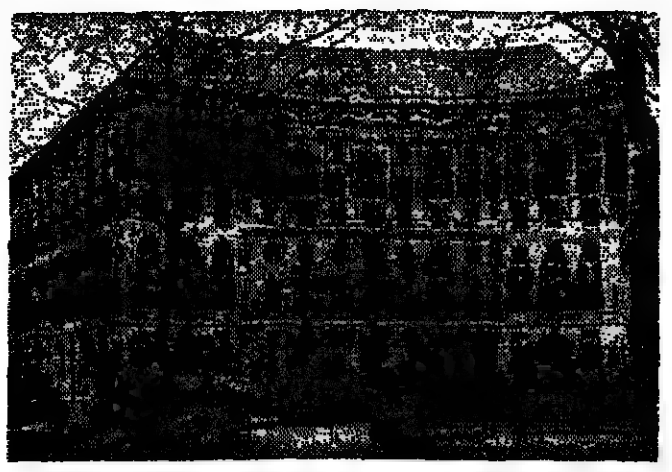
In part of the void created by the demolition work, a semi-circular, stone and glazed atrium will be built commencing at first floor level. The remainder will have a new structural steel frame for office space.

To achieve this and other complex construction tasks, extensive temporary works will be installed both within the building and around the outside, including a safety gantry above the pavement around the whole perimeter. The site will be worked using two tower cranes. Storage space on site is limited and access is restricted in height and width necessitating careful pre-planning and control of the timing of deliveries.

Internally, the building will be completed to a standard ready for fitting-out by the tenant. This will include completion of suspended ceilings above which will run the ductwork for air conditioning and other pipe work, cabling and sprinkler systems. A raised floor will be installed throughout.

A major consideration is the occupation throughout the project by a branch of the National Westminster Bank in one corner of Lutyens House.

Greycoat completed its purchase of the building at the beginning of June and work is due to start on site in August 1987 for completion in 24 months.



Lutyens House, photographed from Finsbury Circus, London EC2, which is being renovated under a £30m contract by Taylor Woodrow Management Contracting for Greycoat Group

Mixed batch for SDC

SDB BUILDERS, Bedford, has won eight contracts, worth more than £6.6m ranging from design and build to refurbishment and construction of everything from flats to factories. The work is spread throughout the Home Counties and London and includes a £1.4m five-storey development of flats, maisonettes and shops at Hampstead for Michael Kelly Home Developments. In Sunningdale, opposite the Ladies' Golf Course, SDC has been asked to design and complete the conversion of a former conference centre into a 76-bed nursing home on behalf of Care Homes at a cost of £1.13m. The Guardian newspaper in central London, is being refurbished on two floors for £833,000 to accommodate computerised print equipment and in Hampstead SDC is building a church and 26 flats for the elderly, on behalf of Retirement Community Homes, worth over £750,000.

The remaining contracts include factory and office development on behalf of Minolta (UK) at Milton Keynes (£436,000) and Grand Union Developments at Uxbridge (£685,000), while at Bedford and Biggleswade, in conjunction with the National Westminster Bank and engineering company Gloster Saro, SDC has design and build office and factory contracts worth over £700,000 and £648,000.

★

MULTI CONSTRUCTION, Stockport-based subsidiary of the Multi Construction (UK) Group, has been awarded a £268,669 contract by *Manchester City* Council for the infill to a multi-storey block at the John Dalton *College Manchester*. The contract will provide additional laboratory accommodation, and includes minor alterations to the building.

£5m NatWest City offices

Work in the City of London heads contracts worth £10m awarded to TARMAC CONSTRUCTION. The largest is a £5.6m contract for fitting-out offices in Crutched Friars, London, for the National Westminster Bank. Work starts this month and is scheduled for completion in about a year.

At Blakelands, Milton Keynes, a design and construction contract for a warehouse and offices, for Paige Management, is valued at about £2m.

Other projects include a children's centre at Burnage, Greater Manchester, for Manchester City Council (£642,000); fitting-out a store at Leeds for W. H. Smith and Son (£595,000); demolishing a building and constructing offices at Weybridge, Surrey, for Park Commercial Developments (£353,000); and a car park for Newcastle-upon-Tyne City Council (£236,000).

Contracts and Tenders

Company Notices

DIARY DATES

Trade fairs and exhibitions: UK

Current
Grosvenor House Antiques Fair (0799-26699) (until June 20) Grosvenor House

June 16
Building Maintenance Refurbishment Expo (0474-874089) Birmingham

June 21-22
Hair Fair—HAIR (01-940 6065) G-Mex Centre, Manchester

June 22-24
Property Management & Architects Exhibitions (01-749 3535) Kensington Exhibition Centre

June 23-25
Software Engineering Tools Exhibition and Conference (01-868 4466) Wembley

June 27-28
Craft Fair (01-940 4608) Sandown Exhibition Centre, Esher

June 30-July 2
Electronic Publishing Exhibition and Conference (01-868 4466) Wembley

July 3-5
Money Show (0895 59431) University of Leeds

July 6-9
Royal Agricultural Show (0203 555100) Kenilworth

July 10-19
World Wine Fair (01-729 0677) Bristol

July 14-16
Electronic Design Automation Show (01-242 3621) Wembley Conference Centre

July 17-18
Cash and Carry Fashion Fair (01-727 1929) Kensington Town Hall

July 19-23
Gift Trade Fair (0282 867153) Harrogate Exhibition Centre

Overseas

Current
International Air Show (01-225 5566) (until June 21) Paris

June 22-26
International Foundry Exhibition (021-455 9600) Brno

June 22-26
International Wine, Spirits and Equipment Exhibition (01-225 5566) Bordeaux

June 30-July 3
Electronics Industry Exhibition (02403 29406) Hong Kong

July 16-20
International Integration of Western and Chinese Medical Technology and Pharmacology Exhibition (01-486 1951) Shanghai

July 22-25
British Products and Services Fair (0206 240668) Amman

July 24-27
Electronic Products Exhibition — INTERNEPCON (01-940 3777) Kuala Lumpur

August 21-27
International Jewellery and Watches Exhibition—JEWEL FAIR (01-464 4129) Singapore

Business and Management Conferences

June 16-17
Financial Times: Retailing (01-621 1355) Hotel Inter-Continental, W1

June 18
Longman Seminars: Commercial Agreements in the Music Industry (01-242 4111) Cavendish Conference Centre, W1

June 19
International Business Communications: Pensions regulations (01-236 4080) Royal Lancaster Hotel, W2

June 22-23
Financial Times: World gold conference (01-621 1355) Venice

June 23-24
Institute for International Research: Pricing, Hedging and Trading Options on Interest Rates (01-434 1017) Moorgate Place, EC2

June 24-25
ESC: Commercial Exploitation and Protection of Computer Software (0536 204224) Churchill Hotel, W1

June 29
The Strategic Planning Society: Recent research results—the competitiveness of British Multinationals (01-235 0246) 15 Belgrave Square, SW1

June 30-July1
Watt Committee on Energy: Rational use of energy (01-379 6875) Heriot Watt University Edinburgh

July 2-3
Financial Times Conferences: Oil and gas reappraised (01-621 1355) Hotel Inter-Continental, W1

July 6
London Chamber of Commerce: Turkey in pre-election year (01-248 4444) 69, Cannon Street, EC4

July 7-12
International Energy Forum (040 35 69 24 40) Hamburg

July 8-9
Institute for International Research: Issuing, Trading and Investing in Equity Warrants and Convertibles (01-434 0301) Cafe Royal, W1

July 7-9
City Financial: Insurance information exchange — UK-general markets (01-242 5275) Connaught Rooms, WC2

July 7-8
Financial Times Conferences: Telecommunications and the European Business Market: the perspectives for change (01-631 1355) Hotel Inter-Continental, W1

July 13-14
Spectra: How can retail management use data collected from sales points — to make their businesses grow? (0734 794181) Portman Hotel, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are *interims* or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Central and Sheerwood, St. James Court Hotel, Buckingham Gate, SW, 11.00
Hammerson Prop., 100 Park Lane, W, 12.00
Television Services, 44 Great Marlborough street, W, 10.00

BOARD MEETINGS—
Finals:
Aitken Hume
Alexon
Apricot Computers
Chamberlain Phipps
Dominion Intnl
Erskine House
Freshbake Foods
Harmony Leisure
Hunting Group
Hunting Petroleum Services
Southwest Resources
Sterling Publishing
Interims:
Blick
City Site Estates

DIVIDEND & INTEREST PAYMENTS—
AECI 5½pcPf. 2.75p
Arbuthnot Yen Bond Fd. Ptg. Pf. Inc. Y3
Atlantic Computers 3.5p
BSR Intnl. 5¼pcLn 1985-90 2⅝pc
Baillie Gifford Tech. 0.2p
Banco Nacional De Desarollo Fltg. Rate Nts. 1987 $48.03
Caisse Nationale Des Autoroutes 10pcLn. [illegible]
CalFed 30cts.
Capital 12½pc 2005 6¼pc
Cowells 2p
Cummins Engine 55cts.
Dana Corp. 34cts.
Dover Corp. 23cts.
Ford Motor 3.75cts.
[illegible] O'seas. Inc. and Growth Pf. 1.678p
GRE 7pcLn. 1986-91 3½pc
Hammerson Prop. 8.5p. Do. A 8.5p
Honeywell 50cts.
Intnl. Thomson Org. 10cts.
Investors Cap. Tst. 5¼pcPf. 1.8375p
King and Shaxson 6.25p. 5pc2ndPf. 1.75p. Do. Ptg. Pf. 3.15p
LASMO 7p
Louisiana Land Explo. 25cts.
M. and G. Midland and Gen. 3.1p
Martin Currie Pacific Tst. 0.29p
Mercantile House Var. Rate Ln 1984-89 [illegible]
Pacer Systems 3cts.
Sea Containers 30.36682
Singer 10cts.
Suter 2.8p
TRW Inc. 0.8cts.
Treasury 8¼pcLn. 1987-90 4⅛pc
Trinova Cpn. 25cts.
Tronoh Mines M$0.25
United Biscuits 8pcDb 1993-98 4pc
United Newspapers 10.5p
Ward Group 1p

TOMORROW

COMPANY MEETINGS—
Avis Europe, Waldorf Hotel, Aldwych, WC, 12.00
British and American Film, Brook House, 113, Pall Mall, W, 12.15
Dencora, Waveney House Hotel, Puddingmoor, Beccles, Suffolk, 12.00
Kalon Group, Huddersfield Road, Birstall, Batley, W. Yorks., 11.30
Silentnight, *Silentnight* Exhibition Centre, Salterforth, Colne, Lancs., 12.00
Simon Eng., Bird Hall Lane, Cheadle Heath, Stockport, 12.00
WA Hldgs., 8 Baker St., W., 11.00

BOARD MEETINGS—
Finals:
Alphamec
BSS
Bradford Prop. Tst.
Cape [illegible]
Centrovincial Ests.
Dawson Intnl.
EMAP
Fuller Smith and Turner
Gilbert House
Gold Greenless Trott
House Prop. Co. of London
Meyer Intnl.
Northern Foods
Paul Michael Leisurewear
S. and U. Stores
Interims:
Carroll Inds.
Devenish (J. A.)
Dundee and London Inv. Tst.
Fenner (J. H.)
French (Thomas)
London and Clydeside
Watson and Philip

DIVIDEND & INTEREST PAYMENTS—
Arenson Group [illegible]
Bank Leumi (U.K.) Fltg. Rate Nts. $33.40
Finlay Packaging 2.75p
Hanimex Cpn. 2cts.
Italian Intnl. Bank Sub. Fltg. Rate Nts. 1996 $319.13
Sunlight Service 6.5p

WEDNESDAY JUNE 17

COMPANY MEETINGS—
Abbott Mead Vickers, Portman Hotel, 22 Portman Square, W., 11.00
British Printing and Communication, Mirror Building, 33 Holborn, EC, 12.00
Ellis and Goldstein, Barrington House, Wood Street, EC, 12.00
Hawker Siddeley, Dorchester Hotel, Park Lane, W., 12.00
Lee Cooper, Hotel Inter-Continental, 1 Hamilton Place, Hyde Park Corner, W., 11.00
Reed (Austin) 16-21 Sackville Street, W., 12.00
Shiloh, Holden Fold, Royton, Oldham, Lancs., 11.30
Sunderland and South Shields Water, 29 John Street, *Sunderland*, 12.00
Third Mile Inv., City of London Club, 19 Old Broad Street, EC, 12.00
Upton (E.) 175 Linthorpe Road, Middlesborough, 6.00
Usher-Walker, Connaught Rooms, Great Queen Street, W., 12.00

BOARD MEETINGS—
Finals:
Anglo United
British Gas
London Invst. Tst.
Magnet and Southerns
Oxford Instruments
Salvesen (Christian)
Waddington (John)
Interims:
Countryside Props.
London Scottish Finance
Lookers
Lovell (Y. J.)

DIVIDEND & INTEREST PAYMENTS—
British and American Film Hldgs. 4p
EAB Fin. Gtd. Fltg. Rate Nts. 1993 $161.15
Korea Devpt. Bank Fltg. Rate Nts. 1993 £127.6
Lowlands Invs. 1.4p
Marks and Spencer 3.1p
Panama (Rep. of) Fltg. Rate Nts. 1992 $363.37
Senior Eng. 9¼pcLn. 1994-99 4⅝pc
Utd. Mizrahi Int. Inv. Gtd. Fltg. Nts 1987 $325.45

THURSDAY JUNE 18

COMPANY MEETINGS—
Farnell Elect., Queens Hotel, Leeds, 1.00
Forward Group, Hedging Lane, Dosthill, Tamworth, Staffs., 12.00
Jantar, Hyde Park Hotel, 66 Knightsbridge, S.W., 11.00
London Atlantic Inv. Tst., 91 Waterloo Road, S.E., 12.30
Nu-Swift Inds., Grosvenor House, Park Lane, W., 11.30
Portsmouth Water, West Street, Havant, Hants., 12.00
River and Mercantile Geared Cap. Inc. Tst., Russell Hotel, Russell Square, WC., 11.30
Scottish Mort. and Tst., 3 Glenfinlas St., Edinburgh, 11.00
TR Technology Inv. Tst., Mermaid Hse., 2 Puddle Dock, EC, 11.30

BOARD MEETINGS—
Finals:
BET
Bassett Foods
British Telecom
Chloride
Finlay (James)
Johnson Matthey
Kenning Ests.
Kenning Motor
London Intnl.
M. L. Hldgs.
Mansfield Brew.
Scapa
600 Group
Stoddard
Stormguard
Uallock
Interims:
Cifer
Horne (Rbt.)

DIVIDEND & INTEREST PAYMENTS—
Abbott Mead Vickers 2p
Barham Grp. 1.5p
Chepstow Racecourse 1p
Marine Midland Banks Fltg. Nts. 2009 $170.9
Shiloh 2.5p
Standard Chartered Fltg. Rate Nts. *£125.24*
Taiwan Power Fltg. Rate Nts. 1992 $328.61
Wellcome 0.81p

FRIDAY JUNE 19

COMPANY MEETINGS—
Assctd. British Foods, Connaught Rooms, Great Queen St., WC, 11.00
Bodycote Intnl., Portland Thistle Hotel, Portland St., Piccadilly Gardens, Manchester, 12.30
East Surrey Water, London Road, Redhill, Surrey, 12.30
Hewden-Stuart, Copthorne Hotel, George Square, Glasgow, 12.00
MIL Research, Ironmongers Hall, Shaftesbury Place, Barbican, EC, 12.00
Morgan Crucible, Cafe Royal, Regent St., W., 12.00
TDS Circuits, Whitebirk Est., Blackburn, Lancs., 3.00

BOARD MEETINGS—
Finals:
CASE
Cranswick Mill
Gee/Rosen
Norton Opax
Interims:
Strat Inv.

DIVIDEND & INTEREST PAYMENTS—
Abbey Nat. Building Soc. Fltg. Nts. 1991 £244.62
Bank fur Arbeit und Wirtschaft Sub. Nts. 1999 $325.46
Caparo Inds. 0.9p
Citicorp Overseas Fin. Fltg. Nts. 1996 $167.71
East Surrey Water A 7pc 3.5p. Do. B 4.9pc 2.45p. Do. C 3.5pc 1.75p. Do. 3.5pcPf. 1.75p. Do. 4.2pcPf. 1985-90 2.1p. 4.6pcPf. 1992-94 2.3p
Glaxo Hldgs. 5p
Highlands and Lowlands Berhad 10cts.
Holt (Joseph) 14p
Italy (Rep. of) Fltg. Nts. 2000 $318.87
Marine Midland Bank Fltg. Nts. 1996 $169.31
Pfizer 48cts.
Portsmouth Water 3.5pc 1.75p
River and Mercantile Geared Cap. Inc. 2p
SAC Intnl. 1p
Sakura Fin. and Inv. [illegible]
Tharsis 10.5p
United Friendly Insurance 13.8p
United Mizrahi Gtd. Fltg. Nts. 1988 $331.77

SATURDAY JUNE 20

DIVIDEND & INTEREST PAYMENTS—
Essex Water 3pcDb. 1½pc. Do. 4pcDb. 2pc. Do. 5pcDb. 2½pc. Do. 6pcDb 1988-1991 3pc. 7pcDb. 1986-88 3½pc. Do. 7pcDb 1987-89 3½pc. Do. 7½pcDb 1991-93 3¾pc. Do. 8pcDb. 1991-93 4pc. Do. 10pcDb 1992-94 5pc. 10½pc Db. 1994-98 5¼pc
M. and G. American Recovery 0.4p

SUNDAY JUNE 21

DIVIDEND & INTEREST PAYMENTS—
Spain (Kingdom of) 12pcLn. 1988 12pc

Personal

Courses

Clubs

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

ITALY

1987 High	1987 Low	June 12	Price Lire
27000	23535	Banca Com'le	23600
715	650	Bastogi-IRBS	655
7155	5765	CIR	5890
3650	2030	Credito Italian	2080
17850	12110	Fiat	12720

ITALY Continued

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

1987 High	1987 Low	June 12	Price Kronor
[illegible]	[illegible]	[illegible]	[illegible]
240	187	Pharmacia	193
770	600	Saab-Scania (free)	612
190	135	Sandvik	173
170	110	Skandia	153
133	104	Skan Enskilda	129
397	310	SKF	359
401	269	St. Kopparbergs	387
461	380	Svka Handelsbn	461
105.6	83	Swedish Match	98.60
347	261	Volvo B (Free)	312

SWITZERLAND

[illegible]

HONG KONG

[illegible]

SOUTH AFRICA

[illegible]

AUSTRALIA

1987 High	1987 Low	June 12	Price Aust. $
[illegible]	[illegible]	[illegible]	[illegible]
7.2	4.6	Smith (H.)	5.04
5.2	3.16	Thos Natwide	4.50
4.5	5.75	Tooth	7.80
7.8	2.55	Vamgas	3.70
4.05	3.51	Western Mining	7.10
8.12	4.4	Westpac	5.06
5.3	1.55	Woodside Petrol	2.15
2.68	3.35	Woolworths	3.35
4.1	2.5	Wormald Intl	3.40
4.4			

JAPAN

[illegible]

SINGAPORE

1987 High	1987 Low	June 12	Price S $
[illegible]	[illegible]	[illegible]	[illegible]
3.52	2.82	Tat Lee Bank	3.46
5.9	4.18	UOB	5.55

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

TORONTO

Closing prices June 12

[illegible]

MONTREAL

Closing prices June 12

[illegible]

Total Sales 6,817,080 shares

OVER-THE-COUNTER

Nasdaq national market, Closing prices, June 12

Continued from Page 37

[illegible]

Indices

NEW YORK

DOW JONES

	June 12	June 11	June 10	June 9	1987 High	1987 Low	Since compilation High	Since compilation Low
♦Industrials	2377.79	2360.13	2353.61	2352.70	2405.54 (6/4)	1927.31 (2/1)	2405.54 (6/4/87)	41.22 (2/7/32)
Home Bonds	87.85	87.81	87.82	87.50	95.51 (9/2)	87.07 (22/5)	(—)	(—)
Transport	1029.53	1028.37	1023.32	1013.34	1029.53 (12/6)	816.38 (2/1)	1029.53 (12/6/87)	12.32 (8/7/32)
Utilities	203.77	201.75	201.12	201.12	227.83 (22/1)	191.39 (20/5)	227.83 (22/1/87)	10.5 (8/4/32)

♦Day's High 2399.42 (2380.46) Low 2360.74 (2341.93)

STANDARD AND POOR'S

	June 12	June 11	June 10	June 9	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite‡	301.62	298.73	297.47	297.28	301.95 (6/4)	246.45 (2/1)	301.95 (6/4/87)	4.40 (1/6/32)
Industrials	349.12	346.17	345.02	344.99	349.93 (6/5)	274.58 (2/1)	349.49 (6/4/87)	3.62 (21/6/32)
Financials	30.03	29.44	29.11	28.98	31.51 (6/3)	25.97 (29/5)	31.51 (6/3/87)	8.64 (1/10/74)
NYSE Composite	169.85	168.24	167.53	167.38	171.08 (24/3)	141.01 (2/1)	171.08 (24/3/87)	4.46 (25/4/42)
Amex Mkt. value	335.64	333.00	332.34	331.53	342.23 (6/4)	267.49 (2/1)	342.23 (6/4/87)	29.31 (9/12/72)
NASDAQ OTC Comp	425.38	423.37	422.81	421.67	439.64 (20/3)	353.26 (2/1)	439.64 (20/3/87)	54.87 (3/10/72)

	May 29	Apr. 24	Apr. 10	year ago (approx.)
Dow Industrial Div. Yield	2.93	2.99	2.86	3.57
	June 3	May 27	May 20	year ago (approx.)
S and P Industrial Div. Yield	2.51	2.55	2.64	3.06
S and P P/E ratio	22.43	21.97	21.21	17.23

TRADING ACTIVITY

† Volume

Millions	June 12	June 11	June 10
New York	175.07	139.692	179.440
Amex	13.942	10.400	11.251
OTC	(—)	(—)	172.738

NEW YORK	June 12	June 11	June 10
Issues Traded	1,957	1,979	1,977
Rises	1,077	884	857
Falls	485	615	687
Unchanged	395	480	433
New Highs	—	52	68
New Lows	—	11	16

CANADA

TORONTO

	June 12	June 11	June 10	June 9	1987 High	1987 Low
Metals & Minerals	2901.2	2924.5	2905.2	2881.0	[illegible]	1988.2 (2/1)
Composite	3725.50	3726.5	3709.8	3717.9	3881.2 (6/4)	3067.8 (2/1)
MONTREAL Portfolio	1865.69	1865.09	1855.74	1857.85	1935.0 (6/4)	1534.3 (2/1)

	June 12	June 11	June 10	June 9	1987 High	1987 Low
AUSTRALIA						
All Ord (1/1/80)	1827.7	1803.9	1788.6	1781.5	1858.8 (18/5)	1486.7 (2/2)
Metals & Minerals (1/1/80)	1139.8	1105.9	1085.5	1075.0	1287.5 (18/5)	729.1 (2/1)
AUSTRIA						
Credit Aktien (30/12/84)	184.03	184.60	184.18	185.99	230.60 (2/1)	183.43 (25/5)
BELGIUM						
Brussels SE (1/1/84)	4640.52	4619.40	4605.60	4580.70	4683.0 (15/5)	3987.86 (9/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	(u)	207.80	207.51	217.57 (22/1)	189.64 (6/1)
FINLAND						
Unitas General (1975)	544.1	540.1	537.7	531.7	544.1 (12/6)	425.2 (5/1)
FRANCE						
CAC General (31/12/82)	409.7	408.00	407.10	414.20	460.4 (26/3)	392.0 (2/1)
Ind Tendance (31/12/86)	102.5	102.00	101.10	102.70	117.2 (26/3)	97.8 (2/1)
GERMANY						
FAZ Aktien (31/12/58)	582.85	583.08	577.46	576.03	676.84 (6/1)	538.32 (19/3)
Commerzbank (1/12/53)	1756.0	1756.60	1740.60	1741.50	2048.3 (6/1)	1633.8 (19/3)
HONG KONG						
Hang Seng Bank (31/7/64)	3129.88	3087.52	3097.33	3108.57	3129.88 (12/6)	2449.88 (20/1)
ITALY						
Banca Com. Ital (1972)	697.78	693.33	696.46	703.10	767.34 (30/4)	673.60 (3/3)
JAPAN**						
Nikkei (16/5/49)	25894.27	25890.95	25738.96	25379.88	25894.27 (12/6)	18544.0 (13/1)
Tokyo SE New (4/1/68)	2256.67	2258.56	2243.07	2196.01	2258.56 (11/6)	1557.46 (13/1)
NETHERLANDS						
ANP CBS Gen (1970)	289.9	290.10	288.30	287.30	293.4 (9/4)	257.7 (28/1)
ANP CBS Indust. (1970)	243.7	243.60	244.30	244.00	274.9 (5/1)	243.60 (11/6)
NORWAY						
Oslo SE (4/1/83)	432.04	430.26	429.34	435.82	436.16 (24/4)	361.98 (2/1)
SINGAPORE						
Straits Times (30/12/66)	1227.04	1226.63	1224.37	1223.82	1245.71 (5/6)	889.08 (2/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	2134.0	2121.0	2090.0	2308.0 (27/4)	1786.0 (19/3)
JSE Indust (28/9/78)	(u)	1889.0	1885.0	1884.0	1957.0 (19/5)	1423.0 (2/1)
SPAIN						
Madrid SE (30/12/85)	227.33	225.27	226.06	224.83	255.95 (23/2)	202.89 (8/5)
SWEDEN						
Jacobson & P (31/12/56)	2678.14	2667.90	2678.30	2636.90	2782.10 (6/5)	2111.39 (28/1)
SWITZERLAND						
Swiss Bank Corp (31/12/58)	582.3	580.40	578.40	581.60	603.3 (6/1)	564.5 (25/2)
WORLD						
M.S.Capital Intl. (1/1/70)	(u)	479.30	477.6	473.10	479.30 (12/6)	361.3 (2/1)

**Saturday May 30: Japan Nikkei 24,901.59 TSE. 2,146.26.

Base values of all indices are 100 except Brussels SE—1,000 JSE Gold—255.7 JSE Industrials—264.3 and Australia All Ordinary and Metals—500, NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities. 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Compania Tele	4,607,300	22½	---
Pan Am Cp	2,908,600	5⅛	+⅛
Peopls Egy	2,611,500	20	−⅛
Dayton Hud	2,174,800	54½	
Texaco	2,048,000	39¾	+⅞
ATT	1,958,900	26½	+⅛
Archer-Dan	1,817,000	23⅞	+⅛
Gen Elec	1,683,500	53⅞	+⅝
Singer	1,677,000	40⅝	−4⅝
Amer Expr	1,633,100	33⅞	+1

Closing prices, June 12

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33⅝	20⅛	AAR s	.50	1.5	23	397	33	32⅝	32⅞	+⅛
37	21⅞	ADT	.92	2.9	18	78	32⅝	32⅛	32¼	-⅛
27¾	16¼	AFG s	.16	.6	12	471	27	26⅝	26⅝	
22⅝	8⅝	AGS s			18	1194	19	17⅝	17⅝	-1⅛
13	6¾	AMCA				1	7⅞	7⅞	7⅞	-⅛
9⅝	4⅞	AM Intl				1781	7¼	7	7⅛	+⅛
62⅛	47¼	AMR			13	4299	61¼	59¾	59⅞	-1
27½	24⅞	ANR pf	2.67	11.		7	25	25	25	
11¾	8	ARX s			12	214	10½	10⅜	10½	+⅛
73½	28¾	ASA	2a	3.4		543	59⅝	58⅝	58¾	-1⅞
20	9¾	AVX		1.8	88	491	17⅝	17⅛	17½	+⅜
67	41	AbtLab	1	1.6	26	2998	63½	62½	63	+½
23⅞	16⅝	AccoWs	.44	1.8	22	1028	u25	23½	24½	+1
15⅛	9	AcmeC	.40	2.9	10	60	14⅛	13½	13¾	
8⅝	6⅛	AcmeE	.32b	4.1	30	14	7¾	7¾	7¾	
23⅞	18	AdaEx	3.42e	16.		88	21⅞	21⅝	21⅝	-⅜
19½	11⅜	AdmM s	.24	1.4	13	67	17	16¾	17	+¼
23½	12⅞	AdvSys	.62t	2.6	17	1401	23½	23¼	23½	+¾
25	12⅞	AMD				2420	21	20½	20¾	-¼
54¾	49⅝	AMD pf	3	5.7		26	52⅝	52⅛	52⅝	+⅛
10¾	5¼	Adobe				576	9¼	8⅞	9¼	+⅜
20½	13¾	Adob pf	1.84	9.7		5	19	19	19	
21⅞	16⅜	Adob pf	2.40	12.		5	20½	20½	20½	
16⅛	10⅜	Advest	.12a	.9	9	135	12⅞	12⅝	12¾	
68¼	53	AetnLf	2.76	4.6	9	11816	59½	58⅛	59½	+1¼
53⅝	51⅛	AetL pf	3.75e	7.2		4	51⅞	51¾	51¾	-⅛
63	26½	AflPb s	.32	.5	32	427	u63½	62½	62⅞	-¼
28¾	18⅝	Ahmans	.88	4.0	7	11986	22¼	21⅝	22¼	+⅝
5¾	2⅞	Aileen				285	4½	4¼	4½	+⅛
48½	29⅛	AirPrd	.80	1.7	27	1055	46¼	45¾	46¼	+⅜
36	16	AirbFrt	.60	1.8	13	624	32¾	32⅜	32⅝	+¼
12	7⅜	Airgas n			19	78	11⅜	10¾	11⅛	+¼
20⅝	16¼	Airlse n	1.03e	5.8		114	18⅛	17⅞	17⅞	-½
17-32	¼	AlMoan				31	⅜	⅜	⅜	
28	25⅜	AlaP pf	1.81e	6.9		210	26⅜	26¼	26¼	-⅛
10¾	8⅞	AlaP dpf	.87	8.8		88	10	9⅞	9⅞	
106½	93¼	AlaP pf	9	9.4		z450	96	96	96	
108	97	AlaP pf	9.44	9.4		z5230	100¼	99	100¼	+2
96½	83½	AlaP pf	8.28	9.7		z170	85¼	85¼	85¼	
27⅞	14¼	AlskAir	.16	.7	15	1168	22⅝	22	22¼	
27½	13½	Alberto	.24	1.0	30	68	23⅞	23½	23⅞	+⅛
22⅝	13½	AlbCulA	.24	1.2	25	185	20	19½	20	+¼
55⅝	40¾	Albtsns	.96	1.8	17	414	54¾	52⅝	54½	+2⅛
32¼	18⅝	Alcan s	.60	2.0	17	4722	31½	30½	30⅝	-⅞
51⅞	37	AlcoStd	1.28	2.6	17	843	49⅝	48½	49¾	+⅛
42⅝	22⅝	AlexAlx	1	3.9	31	612	25¾	25¼	25⅝	+¼
50½	34½	Alexdr			45	24	47¾	47⅝	47¾	+⅛
103½	65½	AllegCp			15	26	103	101¼	103	+1½
24¾	11⅜	Algint				320	17⅛	16¾	16⅞	-⅛
20⅛	9½	Algin pr				15	16½	16½	16½	-¼
90¾	39	Algi pfC				3	77½	77½	77½	
29⅝	26	AlgLudn				236	27⅜	27⅛	27⅜	+⅛
53⅞	35⅝	AllgPw	2.92	7.2	10	2361	40¾	40⅜	40¾	+⅜
94½	48½	Allegis	1	1.1	29	9121	92½	91¼	91⅝	-⅞
23¾	14½	AllenG	.56	3.5		170	16¼	16	16⅛	+⅛
28⅞	20¼	Allen pf	1.75	8.6		24	20⅜	d20⅛	20¼	-¼
45½	31⅞	AlldPd			10	105	33⅝	33⅛	33¼	-⅜
49¼	36¾	AldSgnl	1.80	4.1	13	4980	44⅛	43¼	43⅝	+⅛
10⅛	6¼	AlldSup			73	125	8¾	8⅝	8¾	+⅛
6⅛	2⅛	AllisCh				138	3⅛	3	3	
37½	25¼	AllsC pf				35	30	30	30	
31½	23½	ALLTL s	1.36	4.8	17	148	28⅜	27¾	28⅜	+⅛
64¾	32⅝	Alcoa	1.20	2.3	264	4067	54⅛	53⅛	53¼	-⅝
24⅝	10½	Amax			35	4021	21⅞	21½	21¾	-¼
38	16⅛	AmHes	.15e	.4	14	2366	37½	37¼	37⅝	+⅝
161	82¼	AHes pf	3.50	2.2		1	u162	162	162	+2

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
28¾	21½	XTRA	.64	2.5		50	26⅛	25¾	26	+⅛
25¾	15	Yorkin			16	87	u26½	25⅛	25¾	+⅛
6	2⅛	Zapata				111	4⅝	4½	4½	−⅛
43⅞	23¾	Zayre	.40	1.4	16	8803	29⅛	28⅝	28⅞	+⅝
14⅝	9⅝	Zemex	.40	3.0	9	15	13⅝	13	13⅝	+⅜
29¾	18⅞	ZenithE				794	29⅛	28⅝	29	+½
17½	6	ZenLab				522	10½	10⅛	10½	+⅛
19½	12⅞	Zero	.36	2.2	17	9	16⅝	16⅛	16¼	+¼
63¾	32¾	Zurnin 1.36		2.7	18	179	51¼	50½	51¼	+1
10⅝	8⅞	Zweig n.10e		1.1		1859	9¼	9	9¼	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, June 12

[illegible]

OVER-THE-COUNTER

Nasdaq national market, Closing prices June 12

[illegible]

Continued on Page 35

FOREIGN EXCHANGES

Sterling looks for stimulus after election boost

BY JONAS CROSLAND

THE UNEXPECTED size of Mrs Thatcher's overall majority meant that sterling immediately had a greater upward potential than had been thought. While a win for the Conservative party was the dynamo which powered the pound's recent upsurge, there was so much good news already built in that a 100 seat plus majority was just the right tonic for a further appreciation.

However UK bond dealers were not the only ones to stay up all night and the Bank of England was keeping an eye on sterling and what most traders see as the magic DM 3.00 level. If sterling does attract considerable intervention, it is likely to leave the authorities with a few tricky juggling acts, given their previous reluctance to allow a cut in UK base rates. On the last point there may have to be some relenting again.

The Government has a five-year mandate and there has never been a single suggestion that 9 per cent is the end of the road.

External factors may also have a significant influence on the Bank's scope for action. The recent summit in Venice was intriguing not for what was said but for what was left out. The 67• nations may already be experimenting with some loose framework on exchange rate, based on ideas used in the EMS. These have obviously needed a considerable update since the Louvre accord because of movements in the dollar's value.

However as Lloyd Bank points out in its latest international financial outlook the Venice summit may encourgae a period of stability for the dollar but by September it will be weakening again.

This is also about the time when those convinced, see the pound ripe for full participation in the exchange rate mechanism of the EMS. The performance of the dollar against the D-Mark makes any calculation difficult but Lloyds Bank suggests that sterling could join at around its notional rate of DM 2.78. The bank adds that at the time sterling would be worth about $1.65.

This would give a dollar rate against the D-Mark of just under DM 1.70, suggesting a devaluation in the dollar of some 5 per cent. Another fall in the dollar is not a view shared by all but bearing in mind the lip service paid to ruling out another decline by leaders in Venice and President Reagan's careless remark that a further dollar fall could be within reason, the odds seem fairly heavily stacked against the dollar.

Nevertheless Nomura Research Institute suggests that a rise in US net exports in terms of volume, will allow the dollar to move up to DM 1.81 by September and with a cable rate pitched at $1.64, this gives a sterling rate against the D-Mark of DM 2.97.

Clearly anaysts seem to suggest that there is plenty of room for manoeuvre, something which the authorities may be pleased to have.

With the election now out of the way, markets were already trying to adjust to just another day in June. Next week sees a whole host of UK economic data which include retail sales on Monday and PSBR figures on Tuesday. County NatWest plump for an £850m requirement for May which is close to a £750m forecast by stockbrokers James Capel.

Thursday sees the release of money supply figures and once again there is little difference in the £2.5bn rise in bank lending forecast by County NatWest and the £2.3bn by James Capel. Other figures include industrial production for April which could rise by 0.2 per cent according to Money Market Services which also suggest a market median of 0.25 per cent.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Sept	Calls—Last Dec	Puts—Last Sept	Puts—Last Dec
118	9.40	10.05	0.12	0.53
120	7.54	8.31	0.26	1.15
122	6.10	7.02	0.46	1.50
124	4.41	5.46	1.13	2.30
126	3.24	4.36	1.60	3.20
128	2.22	3.37	2.58	4.21
130	1.37	2.48	4.09	5.32
132	1.01	2.04	5.37	6.52

Estimated volume total, Calls 7,422 Puts 4,455
Previous day's open int: Calls 24,395 Puts 13,805

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Sept	Calls—Last Dec	Puts—Last Sept	Puts—Last Dec
80	11.49	11.03	0.03	0.17
82	9.54	9.17	0.08	0.31
84	8.01	7.37	0.19	0.53
86	6.19	6.06	0.37	1.20
88	4.49	4.49	1.03	1.63
90	3.12	2.40	1.30	2.54
92	2.03	2.44	2.21	3.58
94	1.16	1.59	3.34	5.09

Estimated volume total, Calls 702 Puts 206
Previous day's open int: Calls 1172 Puts 499

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last June	Calls—Last July	Puts—Last June	Puts—Last July
21250	19.25	24.71	0.05	0.41
21500	16.82	22.40	0.23	0.85
21750	14.43	20.15	0.23	0.85
22000	12.14	17.99	0.44	1.19
22500	9.97	15.93	0.77	1.63
22500	7.97	13.97	1.27	2.17
22750	6.19	12.14	1.99	2.84
23000	4.65	10.45	2.95	3.65

Estimated volume total, Calls 26 Puts 60
Previous day's open int: Calls 405 Puts 695

£ IN NEW YORK

June 12	Close	Previous Close
£ Spot	1.6520-1.6530	1.6635-1.6645
1 month	0.25-0.24 pm	0.25-0.22 pm
3 months	0.61-0.58 pm	0.57-0.55 pm
12 months	1.25-1.15 pm	1.25-1.17 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	June 12	Previous
8.30 am	73.5	73.6
9.00 am	73.5	73.5
10.00 am	73.4	73.4
11.00 am	73.4	73.4
Noon	73.6	73.4
1.00 pm	73.6	73.5
2.00 pm	73.4	73.4
3.00 pm	73.4	73.4
4.00 pm	73.4	73.4

CURRENCY RATES

June 12	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.77990	0.694595
U.S. Dollar	5.5	1.2970	1.15440
Canadian $	7.90	—	1.54632
Austrian Sch.	4	N/A	14.5847
Belgian Franc	7¾	"	43.0707
Danish Krone	7	"	7.81009
Deutsche Mark	3.0	2.3311	2.07677
Neth. Guilder	4½	N/A	2.33916
French Franc	9½	7.7897	6.93795
Italian Lira	11.5	N/A	1504.47
Japanese Yen	2½	185.08	165.395
Norway Krone	8	N/A	7.67676
Spanish Peseta	—	"	144.358
Swedish Krona	7½	"	7.25463
Swiss Franc	3.5	"	1.71717
Greek Drach.	20½	"	155.240
Irish Punt	—	"	0.775286

*CS/SDR rate for June 11: 1.74105

CURRENCY MOVEMENTS

June 12	Bank of England Index	Morgan Guaranty Changes %
Sterling	73.4	-20.1
U.S. Dollar	101.3	-5.7
Canadian Dollar	77.1	-11.4
Austrian Schilling	138.1	+10.2
Belgian Franc	100.1	-4.5
Danish Kroner	93.3	+3.4
Deutsche Mark	147.1	+21.6
Swiss Franc	173.5	+22.9
Guilder	135.1	+14.3
French Franc	71.6	-12.9
Lira	47.2	-18.3
Yen	221.3	+65.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

OTHER CURRENCIES

June 12	£	$
Argentina	2.7680-2.7765	1.6740-1.6780
Australia	2.3035-2.3065	1.3930-1.3960
Brazil	62.0380-62.3865	37.5420-37.7500
Finland	7.2410-7.2560	4.3850-4.3880
Greece	222.45-225.59	134.50-135.25
Hong Kong	12.9095-12.9190	7.8065-7.8075
Iran	118.25*	70.40*
Korea (Sth)	1347.60-1359.80	810.20-816.80
Kuwait	0.46350-0.46450	0.28045-0.28055
Luxembourg	62.00-62.10	37.50-37.60
Malaysia	4.1140-4.1195	2.4880-2.4895
Mexico	2138.30-2161.10	1294.00-1307.00
N. Zealand	2.7880-2.7955	1.6865-1.6890
Saudi Ar.	6.2025-6.2080	3.7500-3.7510
Singapore	3.4875-3.4925	2.1120-2.1135
S. Af. (Cm)	3.3015-3.3165	2.0050-2.0090
S. Af. (Fn)	5.4255-5.6100	3.2785-3.3900
Taiwan	51.65-51.95	31.10-31.20
U.A.E.	6.0740-6.0800	3.6725-3.6735

*Selling rate

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.6520	1.6497	1.6460	1.6428	1.6393
D-mark	2.9925	2.9801	2.9561	2.9236	2.8592
French Fr.	9.9900	9.9865	9.9864	9.9819	9.9639
Swiss Fr.	2.4775	2.4683	2.4480	2.4206	2.3673
Yen	237.50	236.53	234.63	232.11	226.85

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 12	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.0707	+1.44	+0.76	±1.5344
Danish Krone	7.85212	7.81009	-0.54	-1.22	±1.6404
German D-Mark	2.05853	2.07677	+0.89	+0.21	±1.0981
French Franc	6.90403	6.93795	+0.49	-0.19	±1.3674
Dutch Guilder	2.31943	2.33916	+0.85	+0.17	±1.5012
Irish Punt	0.768411	0.775286	+0.89	+0.21	±1.6684
Italian Lira	1483.58	1504.47	+1.41	+1.22	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

June 12	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.652	2.993	237.5	9.990	2.478	3.368	2167.	2.214	62.05
$	0.605	1.	1.812	143.8	6.048	1.500	2.039	1312.	1.340	37.55
DM	0.334	0.552	1.	79.37	3.338	0.828	1.125	724.1	0.740	20.74
YEN	4.211	6.956	12.60	1000.	42.06	10.43	14.18	9124.	9.320	261.3
F Fr.	1.001	1.654	2.995	237.7	10.	2.480	3.371	2169.	2.216	62.11
S Fr.	0.404	0.667	1.208	95.86	4.032	1.	1.359	874.7	0.893	25.05
H Fl.	0.297	0.491	0.889	70.53	2.967	0.736	1.	643.5	0.657	18.43
Lira	0.461	0.762	1.381	109.6	4.610	1.143	1.554	1000.	1.021	28.63
C $	0.452	0.746	1.352	107.3	4.513	1.119	1.521	979.0	1.	28.03
B Fr.	1.612	2.663	4.823	382.8	16.10	3.993	5.427	3492.	3.567	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

June 12	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: Two years [illegible] per cent; three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

June 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6500-1.6640	1.6515-1.6525	0.25-0.22c pm	1.71	0.63-0.58 pm	1.46
Canada	2.2130-2.2309	2.2130-2.2140	0.13-0.03c pm	0.43	0.21-0.05 pm	0.23
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 62.05-62.15. Six-month forward dollar 0.95-0.90c pm. 12-month 1.30-1.20c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

June 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6500-1.6640	1.6515-1.6525	0.25-0.22c pm	1.71	0.63-0.58 pm	1.46
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	140-141¼	140¼-141	60-110c dis	-7.28	230-300 dis	-7.56
Spain	124.80-125.80	125.70-125.80	75-125c dis	-9.59	210-260 dis	-7.51
Italy	1299-1313	1311¼-1312¼	2.80-3.80lire dis	-3.04	9.00-12.00dis	-3.22
Norway	6.63¾-6.67½	6.67-6.67½	3.80-4.10ore dis	-7.13	11.90-12.20dis	-7.25
France	5.99¾-6.05	6.04½-6.05	0.60-0.70c dis	-1.30	1.90-2.10 dis	-1.33
Sweden	6.25¾-6.29¾	6.29-6.29½	0.70-0.80ore dis	-1.44	2.70-2.90 dis	-1.79
Japan	142.60-143.90	143.75-143.85	0.41-0.38y pm	3.31	1.25-1.20 pm	1.71
Austria	12.59½-12.70¼	12.69¾-12.70¼	3.40-3.00gro pm	3.05	9.75-8.75 pm	2.94
Switzerland	1.4810-1.5010	1.4995-1.5005	0.38-0.33c pm	2.86	1.29-1.24 pm	3.40

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.55-37.65

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Jun.	July	Aug.	Sept.	Puts—Last Jun.	July	Aug	Sept.
1.45	20.39	—	—	20.39	0.00	—	—	0.07
1.50	15.39	15.39	15.39	15.39	0.00	0.01	0.12	0.27
1.55	10.39	10.39	10.46	10.62	0.00	0.10	0.49	0.83
1.60	5.39	5.85	6.46	6.84	0.00	0.65	1.49	2.05
1.65	0.39	2.55	3.45	3.95	0.00	2.35	3.48	4.16
1.70	0.00	0.79	1.56	2.03	4.61	5.59	6.59	7.24
1.75	0.00	0.16	0.59	0.92	9.61	9.96	10.62	11.13

Estimated volume total, Calls 180 Puts 165
Previous day's open int, Calls 1,577 Puts 2,764

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last June	July	Aug.	Sept.	Puts—Last June	July	Aug.	Sept.
1.45	12.90	—	—	12.70	0.80	—	—	1.50
1.50	15.40	16.60	16.60	16.60	0.25	0.35	0.35	0.50
1.55	12.10	11.60	11.60	11.60	0.20	0.40	0.60	1.00
1.60	6.10	6.60	7.20	7.70	0.25	0.70	1.60	1.95
1.65	0.30	2.50	4.20	4.75	0.30	2.05	3.15	3.70
1.70	0.20	1.95	2.15	2.70	3.90	5.10	6.10	6.70
1.75	0.20	0.65	1.05	1.40	8.90	9.20	9.85	10.50

Previous day's open int: Calls 2,625 Puts 1,353
Volume: N/A

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last June	July	Aug.	Sept.	Puts—Last June	July	Aug.	Sept.
1.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.725	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.750	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: [illegible]
Previous day's volume, Calls 15,322 Puts 29,417

LIFFE—EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls—Last June	Sept.	Dec.	Mar.	Puts—Last June	Sept.	Dec.	Mar.
92.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
92.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
92.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
92.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
93.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
93.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
93.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: [illegible]
Estimated volume, Calls 100 Puts 165

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev.
June	127-17	127-14	126-26	126-31
Sept.	127-14	127-16	126-24	126-28
Dec.	[illegible]	—	—	[illegible]

Estimated volume 31,912 [illegible]
Previous day's open int. [illegible]

10% NOTIONAL SHORT GILT £100,000 64ths of 100%

	Close	High	Low	Prev.
June				
Sept.				

Estimated Volume 0 (0)
Previous day's open int. 0 (0)

THREE-MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]

Estimated Volume 6,584 (4,510)
Previous day's open int. [illegible]

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume [illegible]
Previous day's open int. [illegible]

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume [illegible]
Previous day's open int. [illegible]

U.S. TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]

Estimated Volume [illegible]
Previous day's open int. N/A [illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6520	1.6497	1.6460	1.6428	1.6393

IMM—STERLING $ per £

	Latest	High	Low	Prev.
June	1.6520	1.6625	1.6460	1.6620
Sept.	1.6465	1.6575	1.6430	1.6570
Dec.	1.6430	1.6530	1.6390	1.6540
Mar.	1.6410	1.6430	1.6400	1.6530

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.6538	1.6630	1.6526	1.6623
Sept.	1.6479	1.6578	1.6470	1.6566
Dec.	1.6446	—	—	1.6545

Estimated volume 312 (53)
Previous day's open int 1,113 (1,112)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Latest	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Latest	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
Mar.	[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Latest	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	0.7038
Sept.	[illegible]	[illegible]	[illegible]	0.7101
Dec.	[illegible]	[illegible]	[illegible]	0.7169
Mar.	[illegible]	[illegible]	[illegible]	0.7242
June	[illegible]	[illegible]	[illegible]	0.7319

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Latest	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	0.5571
Sept.	[illegible]	[illegible]	[illegible]	0.5620
Dec.	[illegible]	[illegible]	[illegible]	0.5676
Mar.	[illegible]	[illegible]	[illegible]	0.5736

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Latest	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	92.81
Sept.	[illegible]	[illegible]	[illegible]	92.31
Dec.	[illegible]	[illegible]	[illegible]	91.94
Mar.	[illegible]	[illegible]	[illegible]	91.70
June	[illegible]	[illegible]	[illegible]	91.53
Sept.	[illegible]	[illegible]	[illegible]	91.38
Dec.	[illegible]	[illegible]	[illegible]	91.24
Mar.	[illegible]	[illegible]	[illegible]	91.12

STANDARD & POORS 500 INDEX $500 times index

	Latest	High	Low	Prev.
June	[illegible]	[illegible]	[illegible]	297.25
Sept.	[illegible]	[illegible]	[illegible]	299.00
Dec.	[illegible]	[illegible]	[illegible]	301.10
Mar.	[illegible]	[illegible]	[illegible]	303.10

MONEY MARKETS

Authorities' options limited

THE GREAT post election surge did not happen. Interest rates were marked down very early on Friday morning as the City reacted to the size of the Conservative win. However the election itself did little to alter the chalk and cheese attitudes taken by the market and the authorities about the pace of decline in interest rates.

Under ideal circumstances the Bank of England could offset the effects of its foreign exchange operations on domestic liquidity levels by soaking up excess cash through gilt sales. A shrinkage in the PSBR however has virtually ruled this out and since sterling holds the key in this respect, there are few other options open to the authorities to control the pound's rise other than cutting interest rates.

UK clearing bank base lending rate 9 per cent since May 8

The temptation to keep something in the cupboard, just in case, no longer stands up because the Government now has a five year mandate and memories of base rate rises early on tend to be forgotten.

That there is a risk indeed of the authorities allowing rates to fall too fast is open to question anyway. A steady approach to lower base rates is both wise and commendable but circumstances rarely allow carefully laid plans to be carried out without the odd hiccup.

Inflation figures released on Friday showed a year on year rise of 4.1 per cent which representd a small decline from the previous month. Sterling's confidence is not likely to be dented by the odd half point taken off base rates and if Government forecasts on inflation and industrial production are achieved it would seem odd to have prime lending rates still firmly established towards double figures.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 12) 3 months U.S. dollars		6 months U.S. dollars	
bid 7 3/16	offer 7 1/4	bid 7 3/8	offer 7 1/2

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	June 12	June 5		June 12	June 5
Bills on offer	£400m	£400m	Top accepted rate of discount	8.4431%	8.3830%
Total of applications	£1,086m	£1,525m	Average rate of discount	8.3933%	8.3830%
Total allocated	£400m	£400m	Average yield	8.57%	8.56%
Minimum accepted bid	£97.895	£97.91	Amount on offer at next tender	£400m	£400m
Allotment at minimum level	53%	100%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	June 12	change		June 12	change
LONDON			**NEW YORK**		
Base rates	9	Unch'd	Prime rates	8¼	Unch'd
7 day Interbank	9¼	+3/16	Federal Funds	6⅝	Unch'd
3-month Interbank	8⅝	-1/16	3 Mth. Treasury Bills	5.72	-0.11
Treasury Bill Tender	8.3933	+0.0103	6 Mth. Treasury Bills	6.15	-0.11
Band 1 Bills	8⅞	Unch'd	3 Mth. C D	6.95	-0.08
Band 2 Bills	8⅞	Unch'd	**FRANKFURT**		
Band 3 Bills	—	—	Lombard	5.0	Unch'd
Band 4 Bills	—	—	One mth. Interbank	3.30	-0.35
3 Mth. Treasury Bills	8 5/32	-3/32	Three month	3.625	-0.075
1 Mth. Bank Bills	8 13/16	-1/16	**PARIS**		
3 Mth. Bank Bills	8 9/16	-3/32	Intervention Rate	7¾	Unch'd
TOKYO			One mth. Interbank	8¼	+⅛
One month Bills	3.65625	0.0625	Three month	8⅜	+⅛
Three month Bills	3.65625	Unch'd	**MILAN**		
BRUSSELS			One month	11	-½
One month	6 13/16	-⅛	Three month	10⅞	+⅛
Three month	6⅞	-⅛	**DUBLIN**		
AMSTERDAM			One month	11⅛	-½
One month	5 5/16	Unch'd	Three month	10¾	-½
Three month	5 5/16	Unch'd			

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

NEW YORK (4 p.m.)

		Treasury Bills and Bonds			
Prime rate	8.25	One month	N/A	Three year	7.70
Broker loan rate	8	Two month	N/A	Four year	7.82
Fed. funds	6⅝	Three month	5.72	Five year	7.92
Fed funds at intervention	(—)	Six month	6.13	Seven year	8.16
		One year	6.68	10 year	8.30
		Two year	7.48	30 year	8.49

June 12	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.25-3.35	3.55-3.65	3.60-3.70	3.60-3.75	3.65-3.80	5.0
Paris	8⅛-8¼	8 3/16-8 5/16	8¼-8⅜	8 5/16-8 7/16	8 5/16-8 7/16	7¾
Zurich	2-1½	3¾-4	—	3⅝-3⅞	—	—
Amsterdam	5⅛-5¼	5¼-5⅜	—	5⅛-5¼	—	—
Tokyo	3.21875	3.65625	—	3.65625	—	—
Milan	10½-11	10¾-11¼	—	10½-11	—	—
Brussels	7.00	6⅞-6⅞	—	6 13/16-6 15/16	—	—
Dublin	11-11¼	11-11¼	10⅞-11⅛	10¾-11	10⅜-10⅝	—

LONDON MONEY RATES

June 12	Over-night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	10-9	9⅛-9⅛	8⅞-8¾	8 11/16-8 9/16	8 11/16-8 9/16	8⅞-8¾
Sterling CDs	—	—	8 13/16-8 11/16	8⅝-8½	8 9/16-8 7/16	8 9/16-8 7/16
Local Authority Deposits	9½	9¼	8 13/16	8⅝	8 9/16	8 13/16
Local Authority Bonds	—	—	9	8 13/16	8 13/16	9 1/16
Discount M'ket Deposits	10-9	9	8⅝	8⅝	—	—
Company Deposits	—	—	8⅞	8¾	8¾	8⅞
Finance House Deposits	—	—	8 13/16	8 13/16	8⅝	8 13/16
Treasury Bills (Buy)	—	—	8¼	8 3/16	—	—
Bank Bills (Buy)	—	—	8 13/16	8 9/16	8 9/16	—
Fine Trade Bills (Buy)	—	—	9 1/16	9 1/16	8 13/16	—
Dollar CDs	—	—	7.00-6.95	7.10-7.05	7.30-7.25	7.90-7.85
SDR Linked Deposits	—	—	6⅛-5⅞	6 3/16-5 15/16	6⅝-6⅜	6⅝-6⅜
ECU Linked Deposits	—	—	6⅛-6⅞	6 13/16-6 11/16	6⅞-6⅝	7⅛-7

Treasury Bills (sell); one-month 8⅛ per cent; three-months 8⅛ per cent; Bank Bills (sell): one-month 8 11/16 per cent; three months 8 7/16 per cent; Treasury Bills; Average tender rate of discount 8.3933 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day May 29, 1987. Agreed rates for period June 24 to July 25, 1987, Scheme I: 10.54 p.c., Schemes II & III: 10.12 p.c. Reference rate for period May 1 to May 29, 1987, Scheme IV: 8.873 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 9½ per cent from June 1, 1987: Bank Deposit Rates for sums at seven days' notice 3-3½ per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 8 per cent; one-three months 8¼ per cent; three-six months 8½ per cent; six-nine months 8½ per cent; nine-12 months 8½ per cent; Under £100,000 8 per cent from June 11. Deposits withdrawn for cash 5 per cent.

SECTION III

FINANCIAL TIMES SURVEY

Mr Chirac has had a turbulent first year in office, weakened by the strains of cohabitation with President Mitterrand and his own right-wing internal divisions. To have any chance of wrestling the presidency from the Socialists, Mr Chirac has to convince the electors that his policies are on the right track, says **David Housego.**

France

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A bumpy year for Mr Chirac

FRANCE, WHICH for much of the post-war period surprised the world by the strength of its economic expansion, is currently suffering from a burst of self doubt.

With another year of low growth expected for 1987, the French economy is almost alone among the major industrialised countries to have experienced no more than a fitful recovery since the second oil price shock—a performance now prompting anxieties about the long-term competitiveness of French industry.

The conservative administration of Mr Jacques Chirac has had a bumpy ride in its first year of office, forced to retreat in part on its legislative programme and sapped by the strains of "cohabitation" with President Mitterrand as well as by its own internal divisions.

Mr Jean-Marie Le Pen's extreme right wing National Front has maintained its strength through exploiting issues of racism and delinquency—thus making it the largest extreme right wing party in Europe. Its success reflectsthe strains on French society of the slow down in growth, and of high unemployment.

Even French intellectuals—once assured purveyors of ideas—have been asking themselves why their voices have grown hesitant.

On a political level these doubts are in part the rebound to the excess of confidence with which the right returned to power last year at a time when they seemed likely to reap the windfall gains of the decline in oil prices and the dollar, and when they believed that the application of free market economics would release fresh springs of productivity in the economy.

But the external environment turned against them with world growth slowing and inflation rising, while internally the management of a coalition government under pressure from Mr Mitterrand on one side, and Mr Le Pen on the other, has been every bit as difficult as Mr Raymond Barre, the former Prime Minister and opponent of "cohabitation," had prophesied.

Thus Mr Chirac has emerged weaker from the exercise with his authority challenged and his chances of winning the presidential election next year much diminished.

As against Mr Barre's belief that a new conservative administration would need undivided responsibilities and time to implement its policies, Mr Chirac took the view that a vigorous government could obtain sufficient results to point to a change in direction. He thus embarked on an ambitious legislative programme that included deregulation, more flexibility in the labour market, privatisation and university reform.

The unforeseen consequence of these high pressure tactics was to show the strength of resistance to change—underestimated because of the apparent ease with which the Socialists had imposed wage restraint to rebuild corporate profits. But university students demonstrated against plans to stiffen selection procedures and to raise admission fees.

Railway drivers went on strike against merit related pay structures. And the Government's proposals for reforming the social security structure fell foul of widespread opposition to spending cuts.

Mr Mitterrand, by quietly distancing himself from these policies and by emphasising the role of the President as national arbiter and guarantor of social justice, had little trouble in exploiting the Government's misfortunes. On the basis of the public opinion polls, he has attained a new peak of popularity.

On issues of defence, where he shares divided responsibility with Mr Chirac—he has regularly succeeded in getting the upper hand over the Government including imposing his own views over a French acceptance of Mr Mikhail Gorbachev's "double zero option."

He has currently the best chance of winning the Presidential election if he stands.

Parallel with this, Mr Chirac's difficulties have provoked problems for him within the ranks of his own coalition. He has been continuingly subject to the silent criticism of Mr Barre—who was not only opposed to "cohabitation" but in terms of economic policy has felt the Government should have given more priority to bringing down the Budget deficit and strengthening investment.

He ran into the distrust of his centrist UDF partners by concentrating key ministerial posts and jobs in government in the hands of his own supporters. More recently he has had to face the impatience of young ministers at the initial ambiguity of his stance towards Mr Le Pen some of whose voters he would like to woo away towards his own Gaullist RPR party.

The quarrel with Mr Francois Leotard, the Minister of Culture and head of the free market Parti Republicain—whom Mr Chirac told to choose between his functions of minister and party leader—brought together all these elements.

The major exception to these setbacks has been the success of the privatisation programme. The return to private ownership of the groups nationalised by the Socialists after 1981 has dramatically broadened the base of share ownership—with the number of individual shareholders more than tripling to 5.5m after the eighth and most recent privatisation issue.

It has strengthened the Bourse as a source of new equity funds—with the amount of fresh capital raised by companies sharply rising as well. But in the case of the more recent privatisation issues, old practices of vesting effective control in the hands of a few institutions friendly to the Government, have come to the fore.

The surest sign that the administration is not expecting an upturn in the economy before the May presidential elections is the emphasis in ministerial speeches that the real watershed ahead is 1992—with the opening up of the European internal market coinciding with the economy reaping the real benefits of restructuring.

But in contrast to a certain medium-term optimism, the short economic forecasts are gloomy. Real GDP is unlikely to rise by much more than 1 per cent this year, the trade account will probably return to deficit, unemployment remains at over 11 per cent of the workforce, inflation will be up to 3.5 per cent by December after 2.1 per cent last year, and interest rates in real terms remain as high as when the Government came to power.

The hope of Mr Edouard Balladur, the Minister of Finance, none the less is that it can electorally put across the message that its policies are on the right track.

In practice the thrust of the Government's policy has been to strengthen the corporate sector through holding down spending, through tax cuts and wage restraint—the conflict with Mr Barre being on whether they have gone far enough in this direction. But the other supply side measures it has taken to favour industry, including the lifting of price and foreign exchange controls, have not had time to show their effect.

The result is that with both domestic and foreign demand rising only slowly, the recovery in industrial investment remains weak.

The gloominess of the short-term forecasts has prompted some of the excessive pessimism about the long-term competitiveness of French industry. On the adverse side, French industry was unable to take advantage of the strength of the dollar to increase sales significantly to the US market while the dollar's decline has badly hit traditional plant sales to the less sophisticated Opec and developing country markets.

French industry still lags behind its competitors in having insufficiently invested abroad, in having too many companies that are too small and too many which have traditionally fed on the domestic market. It also has a heavier backlog of debt than its British or German rivals.

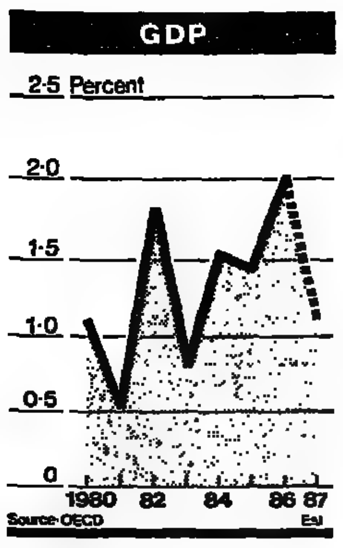
The positive aspects for the long term are that French companies are now strengthening their balance sheets through a third year of rising profits and through capital increases on the Bourse, while more mergers to provide a European or worldwide dimension are taking place. In this sense the prospect of the opening up of the internal European market is proving a powerful incentive to change.

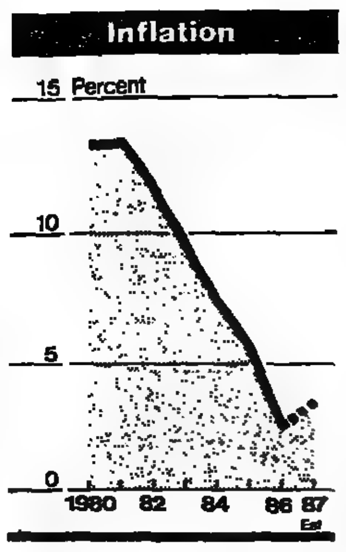
The emphasis on a European—rather than a strictly French horizon—is now shared by all the major political parties and is likely to figure largely in the manifestos for the presidential election. It reflects an important acceptance by the Socialists, and more recently by the Gaullists, of the limitations of national ambitions whether in industry, macro-economic policy or in defence.

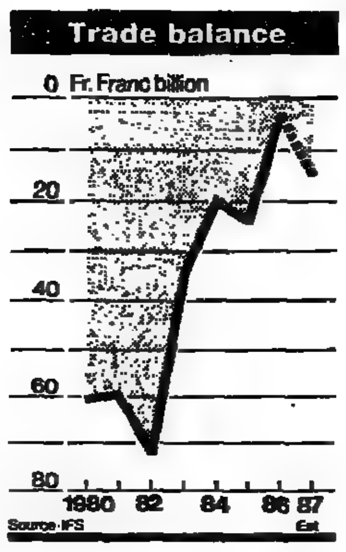
In defence, it coincides with anxieties over European security in the light of potential US missile and troop withdrawals and the fear that West Germany will look eastwards as much as to the EC.

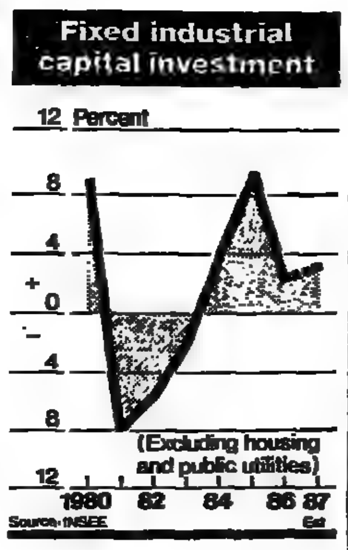
The presidential campaign, however, seems likely to be fought more on personalities than issues—with Mr Mitterrand or Mr Michel Rocard standing for the Socialists and Mr Chirac or Mr Barre as the main candidate on the right. Mr Mitterrand has said he will not make known his candidature until March—thus preserving his presidential authority until the last moment.

But it is by no means sure that the election will bring an end to the conflicts of "cohabitation." For if Mr Mitterrand is currently clear favourite to win the election, the Socialists are far from certain of regaining control of the National Assembly should legislative elections be held immediately afterwards. Mr Mitterrand could thus still have to cohabit with a government of the centre on the "right."









The Economy

A disappointing performance

THE FRENCH economy is now expected to grow by little more than one per cent in real terms this year after Budget provisions built on a recovery that would have provided a 2.8 per cent boost in real GDP. Thus over the last seven years annual average growth will have been under 1.5 per cent—or amongst the lowest of the major industrialised countries.

Inflation, which accelerated in the first half of the year under the impact of imported energy prices and the lifting of controls on service sector prices, should slow in the second half to give a year-on-year rate of 3.5 per cent—above the 1986 level but still reducing the inflation gap with West Germany.

Export growth, which was flat in the first half, should pick up in the second in part because of the competitive edge provided by the small depreciation of the franc within the European Monetary System.

But notwithstanding these signs of improvement in the latter half of the year, the persistently long period of slow growth has been raising uncomfortable questions about the long-term performance of the French economy.

The only two periods of more rapid expansion that the economy has experienced since 1980—two successive half-year periods in 1981-82 and 1985-86—were both the result of a deliberate stimulus to domestic demand that was choked off by a sharp rise in imports. The 2.2 per cent expansion of real GDP in 1986 was thus accompanied by an 8.2 per cent surge in volume terms in exports.

The tell-tale signs of this disappointing performance have thus been a continuing reduction of France's share of the world market in manufactured goods and a shrinking in the traditional French surplus in industrial goods. With no oil resources of its own, France needs a surplus on its industrial trading account to offset its imported energy bill. But the industrial surplus has shrunk from FFr 89bn in 1985 to FFr 35bn last year and an estimated FFr 18bn in 1987.

This shrinkage points to a number of weaknesses in the French economy by comparison with its competitors. Overall, industrial restructuring in the wake of the second oil crisis began later in France than in most European countries and is still continuing.

Imports have been pushed up in areas like machine tools or consumer electronics where French products have disappeared from the market or are under strong pressure. On the export side, French industry was badly hit by the shrinkage of oil producing and developing country markets which have been strong clients for its plant equipment manufacturers and for its aeronautics and arms industries.

Its problems of adapting rapidly to shifts in markets and products demand were illustrated by its failure to take much advantage of the earlier rise in the dollar.

Behind this loss of market share has been inadequate rates of fixed capital investment over recent years. The French figures are a continuing subject of dispute because of definition. But on the figures on INSEE, the state statistics office, industrial investment in real terms (excluding housing and state utilities but encompassing the agro-business sector) will have climbed by an annual average of 3.2 per cent in real terms over the three years 1985-87. But this follows three years in which industrial investment declined by 5.3 per cent a year in real terms.

The relatively slow pick-up in investment has occurred, notwithstanding, during a sharp rise in corporate profitability since 1984. But overall, companies have preferred to diminish their backlog of debt—French companies in the 1960s and 1970s prospered by borrowing heavily and by putting their funds in financial assets.

None the less there remain strong points in the economy that should yield their fruits in the years to come. The automobile industry is the most striking example of a sector that has pulled itself round from high losses to regaining market share in Europe through more stringent financial controls and the introduction of a new range of models.

France still has a strong competitive advantage in that unit industrial costs are rising less fast than elsewhere in Europe because of continuing wage restraint. Hourly wages in industry are forecast as rising by 3.4 per cent this year (or below the inflation rate) after a 4.2 per cent increase in 1986 (when inflation was 2.1 per cent).

Notwithstanding the disappointment over economic performance this year—a period when the Government had hoped to reap the benefits of the fall in the dollar and of oil prices—there has been relatively little discussion among the political parties of alternative economic policies.

Mr Raymond Barre, the former Prime Minister, has consistently advocated a further strengthening of companies' balance-sheets and investment potential through such measures as accelerated depreciation charges or fiscal incentives to investment.

The difficulty with this is that it would require a further contraction of household purchasing power and an additional deflation of demand (through accelerating the reduction in the Budget deficit) at a moment when wage earners' patience is likely to be running thin.

The increase in tax and social security contributions—due to take out FFr 21bn of demand this year—were forced on the Government to plug the deficit in the social security fund. In the wake of such measures—meaning that real purchasing power in France will turn negative in the first year of a conservative administration—the temptation for the Government will be to loosen up on wage settlements at the end of the year.

The risk of such a policy is that is could further widen the French trade deficit—now projected by INSEE at FFr 15bn for the year—while putting pressure on the currency.

David Housego

Alain Madelin's aim is to transform his industry department into . . .

Ministry of Competitiveness

"WE HAVE WON lots of small battles during the last 12 months. But the important thing is that we have managed to change significantly the attitudes of French entrepreneurs," said Mr Alain Madelin, the French industry minister who, from the beginning, has been one of the most active liberal crusaders in the French conservative government.

"The French system had until recently been a system which taxed economic and industrial performance through various forms of bureaucratic or industrial obstacles and practices. For the most part this system encouraged not so much performance but counterperformance," he added, leaning back in his armchair in his office where a model of the European Ariane space rocket sits in one corner.

Mr Madelin, one of the leading figures of the French Republican Party led by his close friend Francois Leotard, the minister of culture and communications, made it clear from the start when he took over the industry portfolio, that he intended to chip away at the old *dirigiste* and interventionist French habits and try to replace them with a modern open market approach.

"But this has not implied a rapid rupture with the *dirigiste* policies of the past but an evolution to put a gradual break on *dirigisme* and accelerate liberal policies," the young minister explained.

"The basic idea has been to educate French entrepreneurs to adopt a bolder approach to industry and risk-taking and not expect, as in the past, to rely on the state to take all the risks."

The basic thrust of his industrial policy, although he does not like the term, has been to do away with traditional state subsidies to support industrial sectors or troubled large industrial groups with more open market mechanism.

Thus state subsidies have been systematically reduced in recent months and instead the Government has sought to improve the general economic environment for enterprises by reducing interest rates, cutting back bureaucratic red tape and administrative costs, and encouraging greater labour flexibility to enhance the competitiveness of French industry.

To rub home the message, Mr Madelin has also taken a number of controversial but bold decisions. Last summer he decided to stop government support for the financially troubled Normed shipbuilding group forcing it into bankruptcy. To compensate for the closure of the Normed shipyards, he launched a programme of new enterprise zones to encourage job creation in areas hit by the shutdown of the shipyards.

Industry Minister Alain Madelin: Chipping away at the old *dirigiste* and interventionist French habits

Already 32 new companies have established themselves in the three new enterprise zones, he says, and another 114 are considering similar moves. "In two months, we created 1,000 new jobs and we expect to see the figure rise soon to about 5,000 jobs," he added.

Another controversial decision was to launch a major reform of his ministry and the appointment for the first time of a well-known businessman with no previous direct experience of the French administration to take over the job of Directeur Generale de l'Industrie, one of the most senior civil servant positions in the industry ministry. What is more, Mr Madelin picked a former senior executive of IBM, Mr Jacques Maisonrouge, for the task.

Mr Madelin and Mr Maisonrouge say the organisation of the ministry is designed to transform it into "the ministry of competitiveness." This idea is to turn the ministry into a more active vehicle to support efforts to make French industry more competitive at a time when French industrial export performance has been declining.

Mr Madelin in particular wants to see the ministry give better support to small and medium sized enterprises. He has thus dubbed the ministry as "the Grenelle Consulting Group" in a reference to the management consultancy vocation of the ministry based in the Rue de Grenelle in Paris. Thus the reorganised ministry is designed to help promote new methods of management, encourage technology and help smaller companies in their export efforts among its other taks.

"Our enterprises have been corsetted and choked by administrative and social charges for too long. But they are now recovering competitiveness and recovering market share. They are also reducing their level of indebtedness and are investing again," claimed Mr Madelin.

Indeed, there has been a turnaround in the financial performance of France's 50 largest industrial groups in the private and public sectors. In 1982 these groups reported between them a consolidated net loss of FFr 9bn. By 1985, they had recovered with an overall profit of FFr 13bn which has increased to FFr 20.6bn last year.

Mr Madelin has also been active in returning French state industrial groups to a free market environment. This has implied putting a gradual stop to state backing for lame duck industries while encouraging state groups, most of which were nationalised by the former left-wing government in 1982, to turn increasingly to the market place for their funding needs.

Mr Madelin says his target is to see all French state industrial groups with the exception of Charbonnage de France, the French state coal group which is a special case, operate in open market conditions between now and next year.

The main thrust of this policy has been coming from the Government's privatisation programme which has so far included, among nationalised industrial groups, the flotation of the Saint-Gobain pipes and glass group and of Compagnie Generale d'Electricite (CGE), the large French telecommunications and heavy engineering group.

Mr Madelin acknowledges that it is clear that not all French state industrial groups will be privatised by next year. But even if the state remains their main shareholder, it does not mean that these groups cannot rely increasingly on the financial markets rather than government funding.

This has already been happening. A good example has been the recapitalisation of Renault Vehicules Industriels, the truck subsidiary of the Renault state car group, which has seen the country's three biggest commercial banks investing FFr 400m each in RVI in either equity warrant bonds or in equity warrant secured loans.

Mr Raymond Levy, the chairman of Renault, sees this move as a first step towards the eventual partial privatisation of the Renault truck subsidiary. The state CdF Chimie chemicals group is now also hoping to open up part of its capital to private shareholders while the Sacilor steel group has floated a small subsidiary.

The shift from a system of state support to an open market environment clearly does not imply an end of state financial backing. Mr Madelin explains that the Government will continue to support, as the main shareholder of the large state groups, labour and other special restructuring efforts designed to restore profitability and competitiveness.

If Mr Madelin has so far not won all his battles as industry minister, he has undoubtedly made a major contribution to the cultural revolution now taking place in French business and industrial attitudes.

Paul Betts

Industry

Investment shows signs of recovery

A STEADY if still fragile improvement in French industry has become increasingly evident in recent months. Industrial investments are now expected to increase by about 3 per cent in real terms, according to the most recent survey of the INSEE French statistical institute. Corporate profitability has also continued to recover with enterprises benefiting both from government measures like a reduction in corporate profit taxes as well as from a marked improvement in the labour climate.

But if the improvement started last year has continued and gathered momentum this year, it is still widely scattered across the range of the different industrial sectors with some *showing a substantial turnround* and others still facing a major uphill task to return to profitability.

The recovery in industrial investments is for example concentrated this year in two sectors. The automobile industry, after languishing a few years ago, is expected to pick up by as much as 12 per cent this year.

The food industry is also expected to show a strong rise *in investments this year* of between 13 per cent and 14 per cent. But investments in all *other* major industrial sectors are expected to remain stagnant or rise only very moderately this year.

Moreover, if company balance sheets have been improving. French industry still faces a major challenge to improve its general competitiveness. The country's industrial trade surplus has continued to decline this year reflecting the difficulties many French enterprises are finding to hold on to international market share, *let alone* increase it.

However, the underlying improvement of French industry *is the result in large* measure of a series of major restructuring in key sectors during the last few years. These restructurings helped by a significant change in traditional union attitudes are now starting to bear fruit.

Perhaps the most spectacular recovery has been in the car industry where the private Peugeot-Citroen group after losing about FFr 8bn in four years has now returned to profit with earnings of FFr 3.6bn last year.

The troubled state-owned Renault car group is now also expected to break even this year after suffering record losses during the last three years.

Although Renault still has a major balance sheet problem burdened by some FFr 60bn of debts and a net negative worth of over FFr 15bn, the state car group has undergone a sweeping restructuring which is now *starting to pay dividends. It has* also decided to withdraw from the US car markets by selling to Chrysler its 46 per cent stake in American Motors Corporation (AMC) and has recently managed to restructure the balance sheet of its heavy truck subsidiary, Renault Vehicules Industriels (RVI), with the help of three banks.

With the improvement in its operating performance, Renault is now expected to tackle the problem of restructuring its own balance sheet. This will entail support *from the Government* which is likely to agree to write-off a large amount of Renault debt with long maturities and low interest rates.

The choice of writing-off low interest rate debt would be designed to try to distort as little as possible competition. Indeed, Peugeot has on several occasions expressed concern of what it fears could be an unfair level of support from the Government to its main rival on the domestic market.

The easing of exchange controls, lower tax rates and social charges, and the bouyancy of increasingly deregulated financial markets during the last 18 months have also made a significant contribution to the improvement in industry. Privatisation has opened up new prospects for the nationalised *groups by granting* them the necessary access for development funds on financial markets.

The left-wing nationalisations of 1982 had caused a major trauma for the large French industrial groups. However, the subsequent reorganisations and restructurings undertaken during the nationalisation period proved in many cases fruitful for these enterprises. Indeed, the nationalisation period helped prepare the companies for their return to the private sector.

Troubled groups like the Bull or Thomson *nationalised electronics* group are now back in the black after major restructuring. The same is the case of the Rhone Poulenc chemicals group. But as one senior executive of a large nationalised group remarked: "Nationalisation was clearly *useful in some cases. It did a lot* of good to some companies. But once these companies have been put back on their feet, it's time to let them go back to the private sector."

All this improvement, however, would have hardly been possible without the *dramatic evolution in* French trade union attitudes. Barely four years ago, labour unions launched violent confrontations *in car plants to oppose redundancies* and restructuring plans. Plans to reduce steel capacity and cut more jobs in the steel sector also brought angry steel workers out in the streets a few years ago.

But during the last 18 months, the union rank and file has shown a remarkable acceptance of the need to restructure, to increase labour mobility and to adopt *a more flexible approach to industrial relations.*

"The change in union attitudes and the increasing sense of maturity shown by the labour rank and file are perhaps the single most important evolution in French industry in recent years. It has helped French industry work towards restoring productivity and competitiveness," said the head of a large private group.

But if the mood has greatly improved in recent months in the French industrial sector at large, industry still faces a set of major challenges. Productivity efforts will have to be maintained and accelerated; restructurings will continue in sectors still in trouble; and efforts intensified to help French industry improve its flagging export performance.

We still suffer from the old French problem of having too many engineers and not enough salesmen," remarked a government official.

Paul Betts

The public appetite for privatisation shares has outstripped predictions and shows no slackening

Embarras de richesses

THE PARIBAS BANKS

SAINT-GOBAIN

elf aquitaine

GOING TO the bank in Paris to cash a cheque has become a hazardous operation these days.

Customers can hardly get *through the door before they* are assailed with brochures advertising the latest privatisation. Bankers who used to be content with taking deposits from their clients are now keener to get them to buy shares in the next company to be floated on the stock market.

There are 65 companies, large and small, on the French Government's privatisation list. Floating as many of them as possible on the stock market before the 1988 presidential elections has turned into little short of a production line.

The public's appetite for privatisation shares, however, has outstripped all predictions, making a mockery of fears that the programme—which could amount to Fr 300bn of sales—might be more than the still relatively underdeveloped Paris stock market could cope with. So far, the appetite shows no sign of slackening.

The success began in 1986 with Elf Aquitaine, the leading French oil company. The state sold only a portion of its stake, and the offer for sale was seen as something of a dress rehearsal. It still drew a record 290,000 individual investors.

The record was smashed for the first real privatisation. That of the glass and packaging group, St Gobain, a solid investment-grade share which—to everyone's surprise—was bought by more than 1.5 million small investors.

If the success of St Gobain was surprising, the flood of subscribers to the next privatisation, that of the banking group Paribas, created something approaching panic among finance ministry officials who had to devise a way of meeting their promises.

An advertising campaign that Mr Edouard Balladur, the finance minister, found "a little too bourgeois" for his taste succeeded in attracting 3.8m individual applications—so many, that the Government was unable to give each subscriber more than four shares.

The Government is now faced with the problem of how to give four-tenths of a free share to all shareholders who keep their shares for 18 months, having promised one free share for every ten, the minimum envisaged in the privatisation law.

The success was costly, too, since the commissions paid to the banks and brokers handling orders had been calculated on the assumption of a much smaller number of shares. In the end, commissions cost around Fr 400m, nearly 3 per cent of the Fr 14bn offering.

Subsequent flotations of a number of smaller banks such as Sogenal, the Alsace regional subsidiary of the Societe Generale group, also attracted an almost unmanageable demand for shares.

If the most recent privatisations, those of the Credit Commercial de France bank and of Compagnie Generale d'Electricite, have drawn slightly fewer investors than did Paribas, they are nevertheless still entitled to *consider themselves runaway successes.*

CGE, at Fr 14.5bn one of the largest ever equity offerings in France, received more than two million subscriptions, despite an unfavourable slump in the stock market.

The success of the privatisations from the point of view of the individual investor has brought grumbling from the institutions, who have scarcely received *a single share* other than the "hard core" holdings sold ahead of the public offer for sale, which must be held for two years and which have often commanded a premium price.

The shortage of paper for the institutions has ensured that prices have risen to substantial premiums after each flotation. Even a single institution seeking to mop up shares in the market caused the price to rocket, since holdings were so widely dispersed.

For a number of flotations, such as St Gobain and Sogenal, the excess of demand in the secondary market became unmanageable, and no share price could be fixed for some days.

Waiting in the wings is the even larger offering of Societe Generale, the country's third largest commercial bank and the first to be put on sale of the companies nationalised by General Charles de Gaulle at the end of the Second World War.

Mr Balladur reserved to the last possible *minute his final* decision to start the flotation of Societe Generale on June 15. The sale could be followed in the autumn by another banking group, Compagnie Financiere de Suez, and insurance company—probably Assurances Generales de France—and possibly the *chemicals* group Rhone Poulenc.

Other state-owned companies which are not on the privatisa*tion shortlist cannot grumble*, however. The privatisation law stipulates that the money raised in the offers for sale must be used either for repaying government debt or for capital increases for companies remaining in the state fold.

They will receive a third of the privatisation proceeds this year, which could total as much as Fr 65bn. Among the beneficiaries will be Renault, CDF-*Chimie and the steel industry.*

Nor have fears that the privatisation programme would saturate the market and prevent private sector companies from raising capital been justified.

"I have the slightly worrying feeling that you can offer any sort of paper these days and the market will eat it up," commented Mr Jean Peyrelevade, chairman of Banque Stern.

If there has been little or no crowding out within the equity market, the privatisation programme has reinforced a trend evident in recent years for savings to move towards equities and away from the bond market and from the savings banks.

The finance ministry has tried to alleviate this. It has used part of the money raised from privatisations *to reduce government* borrowing in the bond market, and it has taken some small measures designed to improve the attractiveness of the regulated savings accounts.

More persistent grumbling has come from the opposition socialist party, especially from Mr Pierre Beregovoy, *Mr Balladur's* predecessor at the finance ministry.

Mr Beregovoy has repeatedly criticised the under-pricing of shares, the refusal of the Government to use the funds raised to boost the companies themselves, and the allocation of the "hard core" stakes to investors close to Mr Balladur's RPR political party.

Less partisan critics than Mr *Beregovoy have also found* Mr Balladur somewhat arbitrary in his choice of which companies to privatise and in the variations he has adopted in the offers for sale of different companies.

The Socialists were widely echoed, for example, when they demanded a pledge from the Government that none of its members would take up a board seat or a paid post in any privatised company *for a period of* five years—a shaft directly aimed at Mr Balladur, who is suspected of having upholstered a chairman's seat for himself at the recently floated *CGE.*

From the Government's own supporters, however, comes a less frequently expressed criticism, that the privatisation programme so far has touched only the surface, selling off only companies which to all intents and purposes already behaved as though they were in the private sector.

Less competitive companies, which some economists in Mr *Chirac's camp* believe would benefit most from the bracing winds of the private sector, seem set to remain under the wing of the state.

They also question the point of protecting privatised companies from predators by forming hard cores of investors, which they see as *contradicting* the goal of returning these groups to the free market.

For the banks and healthy *industrial companies* which have been at the top of Mr Balladur's list, the only significant economic effect of their move into the private sector has been an increased ability to raise new capital from the markets. The banks, in particular, are distinctly under-capitalised in *relation to their international* competitors, although they are in most cases much better positioned from the point of view of their reserves for problem loans.

These critics look enviously at the denationalisations carried out by Mrs Margaret Thatcher in the UK, and dream of privatising the country's telecommunications and electricity authorities or even SNCF, the *loss-making state railway.*

If the Government officially believes that privatisation is a better way to run a railroad, it is *not yet willing to put its theory* into practice.

George Graham

The take-over trail

The acquisition bug bites deeply

A FEW YEARS ago no one would ever have imagined that takeover fever would also grip France like it has done for some time in the US or Britain. Hostile takeovers against French enterprises were rarely engineered with French financiers, and industrialists preferred their own cosy system of the "tour de table" consisting of discreet behind-the-scenes negotiations over mergers and acquisitions.

All this is now changing with the opening up of the French financial markets, gradual financial liberalisation and the start of what amounts to a French "big bang." Old habits have been jostled and the Paris bourse has now also been caught by the takeover bug. But if French companies have now been forced to adapt to an increasingly aggressive takeover climate, they have also in turn become bolder on the international acquisition trail.

During the past 12 months, major French companies have made substantial foreign acquisitions like L'Air Liquide's US$1bn takeover of the US Big Three industrial gases group, or Rhone Poulenc's US$575m acquisition of Union Carbide's agrochemical business against tough competition.

Even before the right-wing Government of Mr Jacques Chirac came to power in March 1986, hostile bids were being mounted in France. In the food sector, BSN, France's leading food and drinks group, took control of Generale Biscuit, the country's biggest biscuit maker, after a fierce hostile takeover fight. The insurance sector also started falling prey to takeover manoeuvres which were new to the French financial markets.

But perhaps the catalyst of the new takeover attitudes in France was what at the time was regarded as a highly controversial bid for control of Valeo, the country's leading car components group, by Mr Carlo de Benedetti, the Italian financier and entrepreneur who is also chairman of Olivetti. Barely a few days before last year's elections, Mr de Benedetti succeeded in gaining a large stake in Valeo and made it clear he intended to seek management control of the group.

The timing of Mr de Benedetti's operation worried the new right-wing Government. Mr Edouard Balladur, the finance and economy minister, sought to play for time by claiming that the French authorities had to review carefully the deal because it involved French defence interests. This was immediately seen as a transparent effort to try to put off Mr de Benedetti whose bid also provoked concern among France's two large car groups, the state-owned Renault group and the private Peugeot-Citroen group.

Moreover, the Government's move also gave rise to a major controversy in that it seemed inconsistent with the conservative administration's commitment to new liberal open market economic policies.

"It was a clear case of good old-fashioned French Government interventionism," admitted a French official who followed the Valeo affair. "But the Government felt it needed to spell out its policy towards takeovers, especially by foreign groups. This was all the more important since the Government was about to embark on its ambitious privatisation programme," he explained.

The problem for the Government was to avoid the risk of opening the floodgates too suddenly to foreign investors. It thus introduced in its privatisation legislation limits of up to 20 per cent on foreign share ownership for the time being at least and the option to take out a "golden share" to protect national interests. Although the handling of the Valeo takeover was initially clumsy and highly questionable, it none the less ended up serving the Government's purpose.

In the end, Mr de Benedetti acquired a stake of just under 30 per cent in Valeo but also obtained management control of the car components group. The Italian entrepreneur was keen to win control of Valeo to build up, with his other interests in this sector, a major European car components group with the necessary size to compete successfully.

At the same time, Mr de Benedetti set up a French holding company called Oerus to become the main instrument of his investment and acquisition policies in France.

With Valeo in the bag, Mr de Benedetti then set out to look for other acquisition opportunities. After unsuccessfully trying to win control of Presses de la Cité, one of the leading French publishing groups, he acquired a major stake in the Yves Saint Laurent fashion house and helped Yves Saint Laurent to mount a US$630m bid to buy Charles of the Ritz, the US perfume and cosmetics company. Recently he agreed to acquire a large stake in Dafsa, the loss-making French financial information group, which he regards as having good turnaround potential and which will come under his management control in much the same way as Valeo.

"Mr de Benedetti has played a major role in helping to change attitudes to deal-making in France," acknowledged a French banker, adding that "it would be nice to have a lot of French de Benedettis around."

The new takeover mood in France has prompted a number of leading French companies to consider carefully ways of taking advantage of the new opportunities offered but also to defend themselves from eventual attacks. This has been the case with a number of companies which have recently launched capital increases or other financial operations to help reinforce their shareholding bases to build up stronger anti-takeover defences. This happened with the BSN food and drinks group and the Accor hotel and catering concern.

A spectacular example of the intense merger and acquisition climate in the French luxury goods and wines and spirits industries is the merger this month of Moet-Hennessy, the leading French champagne and cognac house, with Louis Vuitton, the luxury luggage and leather goods manufacturer, which also owns the Veuve Clicquot champagne concern. Vuitton acquired Clicquot for nearly FFr 5bn last year.

The merger of Moet-Hennessy and Vuitton has created one of the world's leading companies specialising in the luxury sector with a bourse capitalisation of about FFr 25bn, annual sales of nearly FFr 13bn and estimated net profits of more than FFr 1.3bn this year.

The merger of Moet-Hennessy and Vuitton creates a flagship for the luxury products range, linking the Moet-Chandon, Mercer and Veuve Clicquot brands of champagne and Christian Dior and Givenchy perfumes.

Mr Edouard Balladur, Minister of Finance and Economics who sought to avoid opening the floodgates too suddenly to foreign investors.

The merger will reinforce the two companies in the international market but has also neatly resolved two specific problems worrying the respective companies.

In the case of Moet-Hennessy, which also owns the fast expanding Dior perfume business, it was increasingly concerned to reinforce the control of the company by its family shareholders. For some time, Moet-Hennessy had been viewed as a potential target of a hostile takeover despite its substantial capitalisation of about FFr 15bn.

The merger will not strengthen overall family control for Moet since the Moet-Hennessy and Vuitton families will between them control 50 per cent of the votes of the new merged group.

In the case of Vuitton, there was no fear of hostile raids. However, the group had a medium-term succession problem since its chairman, Mr Henry Racamier, is already aged 75 although he remains extremely dynamic and active. The merger thus appears to have resolved the eventual succession problem for Vuitton.

The merged group is now expected to become a flagship of sorts of the French luxury products range with a 20 per cent share of the champagne market, a 22 per cent share of the cognac market, a major presence in the perfume business and leather goods industry. According to Mr Alain Chevalier, the chairman of Moet, it will also help keep control of champagne production as a whole in French hands.

But perhaps the most astonishing example of the new takeover climate that has been gripping France is the international battle for control of Duffour et Igon, a relatively small French industrial gas producer based in Toulouse. The battle has engaged Aga, the Swedish industrial gas group, Linde of West Germany, Union Carbide of the US, and Carburos Metalicos of Spain. The bidding for the French company has been steadily rising, reaching FFr 4,410 a share with Aga's latest offer or double the price at which the bidding initially kicked off. This places a value of FFr 387m on the company whose sales last year totalled FFr 309m. "It just goes to show what people are now prepared to pay to gain market share," remarked a French banker.

Paul Betts

Banking and finance

Bad debts on the mind

CITICORP, the New York banking group, may have sent shock waves around its competitors in the US and in London when it decided last month to set aside $3bn in provisions for bad debt risks. In France, many bankers rubbed their hands as they saw a rival trying to catch up in one jump with the steps they have taken over recent years.

For some time the major French banks devoted a considerable proportion of their profits to building up bad debt provisions, both on specific risks and, especially, on sovereign debts. They have been helped and encouraged in this by the state, which, as regulatory authority, has urged the banks to insure against bad debts.

As owner of all the main banking groups it has not taken from them the same sort of dividends as the stock markets have demanded of their American competitors. As tax collector, finally, it has permitted them to build up these provisions from pre-tax profits.

For many French groups, the process of insuring against debt problems in Latin America, Africa and other developing countries has not finished. Paris's banking authorities are keen to bring a number of banks, especially foreign-owned institutions, up to the average provisions level of their confreres. Some others, especially the very largest, have gone almost as far as they can.

Banque Nationale de Paris, the largest of the big three banks, nationalised by General Charles de Gaulle at the end of the Second World War, actually reduced the level of its bad debt provisions last year to a total of Fr4.8bn—compared with Fr6.2bn and Fr7.2bn respectively for its two sisters, Credit Lyonnais and Société Genèrale.

BNP says that the total of Fr17bn it has set aside to cover possible defaults on sovereign debts accounts for 40 per cent of its total exposure in the 65 countries it regards as on the danger list.

Banking analysts agree that it would be very difficult, and possibly counter-productive, to go beyond the point of 40 per cent cover on sovereign debt exposure.

Recognition of the solidity of these reserves matters deeply to the French state-owned banks. For years they have smarted under the accusation that they were far less profitable than their Anglo-Saxon rivals, an accusation which they regarded as unfounded if their provisioning effort was taken into account.

Now Paribas, Sogenal and Credit Commercial de France, have been returned to the private sector, and Société Generale is on the point of being privatised. Declared profits matter, once again, after a period under state control during which many bankers admit the main goal was to pay as small a dividend as possible to the state—which in turn provided them with next to nothing in the way of new capital.

The point has been rubbed home by the US ratings agencies, Standard and Poors and Moody's, which have lowered their assessment of the quality of the bonds issued by the French banks from AAA to AA plus as they have moved out from under the state umbrella.

Big five profits

	1986 Fr(bn)	Percentage change
Banque Nationale de Paris (BNP)	3.0	+51.7
Credit Lyonnais	1.9	+52.7
Societe Generale	2.664	+64.0
Paribas	3.2	+18.0
Suez Group	2.37	+56.0

At the level of declared profits, too, the French banks have made enormous strides. Last year, for example all of the big three state-owned banks managed to increase net profits by more than 50 per cent.

BNP and Credit Lyonnais both recorded a 52 per cent rise, to Fr 3bn and Fr 1.9bn respectively, while Société Generale, in honour of its imminent flotation, raised profits by 64 per cent to Fr 2.7bn and tripled its farewell dividend to the state.

The waters ahead are less smooth, however, as some of the developments of 1986 made clear.

In the first place, the French banks, in common with those of other nations, are confronted by the process of disintermediation. Their corporate customers are deserting the traditional bank loan in favour of issuing their own bonds or other debt instruments.

The success of the market in commercial paper, or short-term tradable debt, has been one illustration. First authorised at the beginning of last year, it has grown rapidly to a volume of around Fr 36bn—which is directly subtracted from the banks' loan books.

At the same time, the development of this and other financial markets has involved the banks in heavy investments in dealing systems and teams, and exposed them to a new range of interest rate and foreign exchange rate risks.

The point was recognised by the Commission Bancaire, France's bank regulatory authority, which last month issued a white paper recommending methods of monitoring and controlling these off-balance-sheet risks. The white paper follows up the cross report on banking innovations, commissioned by the central bank governors of the group of ten leading industrialised nations and published in April last year.

In their bid to regain elsewhere the business they have lost in the coporate sector, the major banks have thrown themselves into these financial market operations and have greatly boosted their earnings from commissions.

They have also rediscovered the personal loans sector. Credit Agricole, the huge confederation of rural banks, increased its personal loans business by 33 per cent last year, while Société Generale marked a 37 per cent rise in the same sector.

Both here and in the financial markets sector, however, they have run up against competition from smaller and often more nimble organisations which captured market share while the big banks were looking elsewhere.

In the personal sector they have met groups such as Compagnie Bancaire—itself a part of the Paribas group—while in the financial markets they run across scores of "Banques de tresorerie."

They also face some heavily-capitalised and highly competent foreign competition. This has been clearest in the capital markets, where—despite not being named by the French treasury as one of the 13 primary dealers or "specialistes en valeurs de tresor"—Citibank and Bankers Trust have rapidly joined their US compatriot Morgan Guaranty, which was named as a primary dealer, among the most active market makers in government bonds and bills.

The result is that for the big nationalised banks, their troubles will not be over once they have been privatised. It is only then that the struggle to find future sources of profitability begins.

George Graham

The National Front, Europe's biggest extreme right-wing party

Saying out loud what they think deep down

Jean-Marie Le Pen: trawling in murky waters

A PASSING storm on the French horizon, or, more worryingly, the emergence of a new political force? Politicians have been arguing the question all year as Mr Jean-Marie Le Pen's extremist National Front has grown in strength through exploiting the themes of fear and insecurity.

With almost 10 per cent of the electorate behind it according to the opinion polls, the National Front is by far the largest of Europe's extreme right-wing movements. It also has split the vote on the French right in a way that could jeopardise the chances of the main conservative candidates in next year's presidential election. Mr Le Pen was the first politician to announce his candidature. If he has no hope of winning, he hopes that he will have sufficient success in the polls to influence the policies and composition of an administration put in place after the election.

National Front posters claim that Mr Le Pen "says out loud what you think deep down." On that principle the National Front leader has successively trawled in the murky waters of capital punishment, crime and delinquency, immigration and most recently AIDS.

He said in a major television broadcast in May that AIDS victims are contagious through "their breathing, their tears, their saliva and through contact."

It was this outburst with the insinuation that immigrants were carrying an AIDS virus that would infect French society that drew on Mr Le Pen a frontal attack from many ministers in the Government including Mr Michel Noir, the Minister for External Trade, and Mr Alain Juppe, the Minister for the Budget.

Up to then, the right had been openly torn on how to repond to him—hoping on the one hand to woo Front supporters into their own ranks through concessions over the proposed Nationality Bill, while at the same time maintaining their distance from him so as not to alienate the centrist vote.

Mr Le Pen claimed four years ago that he was the only politician, who knew how to make France "dream." Bronzed, blond-haired, teeth gleaming, good health, his appeal has been to a society frightened by unemployment and recession and which is willing to blame the four million immigrant community for part of its ills.

His message is that he "can save a society in danger." He warns Frenchmen of "decadence" and decline, of a lapse in "family, national, social and intellectual disciplines," and says that immigration is one of the symptoms of a "mortal decadence."

Unlike traditional fascist leaders, he does not preach the virtues of a strong state. Instead he takes the Reagan view that the state's powers should be reduced and taxes severely cut.

France has a long history of extremist right movements which have grown and then fallen away. The National Front was enormously helped by the shift in the electoral system carried out by the Socialists in 1985 when they introduced proportional voting for the legislative elections.

It was this that allowed Mr Le Pen to build up a following of over 30 in the National Assembly. The voting system has now been switched back to single seat majority voting.

It has also been probably helped by the decline in the Communist Party which has fallen to 10 per cent of the electorate from levels of 20-30 per cent.

The comforting fact in the present situation is that the combined National Front and Communist vote is no larger than the traditional strength of the Communists.

David Housego

Foreign policy and defence

Consensus looks more fragile

FRENCH DEFENCE thinking which for long was rooted in the Gaullist doctrine of independent nuclear deterence is undergoing substantial changes. If they still remain tucked beneath the surface, this is largely because "cohabitation"—with divided responsibilities for defence between Prime Minister and President—makes it difficult to air new definitions in public.

Among the signs of the shifting ground are the proposals for greater co-operation over nuclear issues between France and Britain, the large joint exercises planned this autumn between France and West Germany, the greater emphasis on a European pillar to the Atlantic Alliance, and the greater readiness for joint equipment purchasing with European partners to keep defence costs down.

The impetus for these changes comes from the changing East-West landscape which puts pressure on Europe to fend more for itself; from Mr Mikhail Gorbachev's "double-zero" offer and the prospect that US missile withdrawals could be followed by partial troop withdrawals as well; and from a potential rise in defence costs beyond what is politically acceptable.

Though the Govenment this year announced a five year military budget under which equipment expenditure will rise annually by 6 per cent in real terms, it is by no means certain that future administrations will be able to stick to this.

Voices have begun to be raised within the French Socialist party, protesting that the national defence budget has now passed in size that of education at a time when the demands of schools and universities for fresh funds are increasingly pressing. At the same time, the French Communist party, released from its support of the French nuclear deterrent by Mr Gorbachev's disarmament proposals, has begun an active pacifist campaign.

All this implies that the famous French consensus on defence, though still in place, is more fragile and less relevant to the new context of East-West relations and potential conflicts in space.

In policy terms, the most recent jolt to French defence thinking came from Mr Gorbachev's proposal to add the elimination of short-range weapons in Europe (500-1,000 km) to earlier proposals for other intermediate range weapons (1,000-5,000 km). The French administration was deeply divided on how to respond.

President Mitterrand took the view that European governments would put themselves in the wrong before their public opinions in rejecting an offer that would be seen as reducing the number of nuclear missiles in Europe.

Mr Mitterrand also believed that by making concessions on intermediate range weapons, the Alliance could hold the line in preventing cuts below the 500 km range that would sweep into the net the Franch tactical weapons, the Hades and the Pluton.

Within the Government, Mr Chirac and, above all, Mr Andre Giraud, the Minister of Defence, took the view that the "double-zero" option would serve Soviet objectives of a denuclearisation of Europe and thus reinforce the Russian superiority in conventional and chemical weapons. M Giraud went as far as calling concessions on the issue a "European Munich."

But ultimately the Government gave way before the imperatives of solidarity with the position finally adopted by Chancellor Kohl of West Germany and the difficulties of a confrontation with President Mitterrand on such an issue.

But the prospect of the withdrawal of US intermediate range weapons from Europe has been one of the factors pushing Britain and France to closer co-operation over nuclear issues. Among possibilities are joint submarine patrols, the joint production of a new generation of airborne missiles, and co-operation over the security of nuclear bases.

At the same time, the prospect that missile withdrawals could be accompanied by partial US troop withdrawals has accelerated the French defence thinking over a European commitment. Mr Francois Heisbourg, a defence analyst with Thomson, has argued in an influential article that French troops would have to replace American in the front line—thus implying an automatic commitment to French participation in the event of a European conflict.

Andre Giraud, Minister of Defence: Warning of a European Munich

The follow-on from that in Mr Heisbourg's view would be a modification of Nato structures that would recognise the changed French role without implying a formal return of France to the Nato integrated command.

Parallel with this shift to a more European concept of defence, Mr Giraud has been actively pushing more co-operation with France's European partners in equipment procurement. The joint production of a Franco-German helicopter—long delayed—now seems likely to go ahead with both sides trying to find ways to reduce the cost.

Britain and France announced jointly the purchase of early-warning aircraft (AWACs) from the US in an operation that reduces the costs for both. At the same time Britain and France are exploring ways for their national defence firms to bid for contracts in each other's country.

The five-year equipment plan announced by Mr Andre Giraud provides for FFr 474bn in expenditure over the period and will carry French defence expenditure up to close to 4 per cent of GNP. The programme gives priority to the re-equipping of the French strategic nuclear submarine fleet with the purchase of multi-head M4 and M5 missiles.

But the planned 6 per cent rise in real terms in equipment expenditure was on the basis of an annual 2.8 per cent rise in GDP. As it is, the French economy is likely to expand by little more than 1 per cent this year.

David Housego

Aviation industry

Flying into greyer skies

AMID THE fanfares which have surrounded the Airbus civil airliner consortium in recent months, it has been easy to forget the greyer side of the picture for the French aerospace industry.

February saw a triumphant roll-out of the A-320, the latest in the European consortium's product range, in the presence of Mr Jacques Chirac, the French Prime Minister, Mr Franz Josef Strauss, Prime Minister of Bavaria, and the Princess of Wales.

The A-320 has proved to be a best-seller, obtaining 261 firm sales, 156 options and 20 commitments even before its roll-out.

Last month, Airbus clinched the Government financing necesary to launch its next models, the medium-range A-330 and the long-haul A-340, which should fly by 1992.

On the French side, the state-owned Aerospatiale—which is a leading partner in Airbus with 38 per cent of the consortium along with Messerschmitt Bolkow Blohm of West Germany and British Aerospace of the UK—is to receive FFr 4.86bn in reimbursable grants for the A-330/A340 programme.

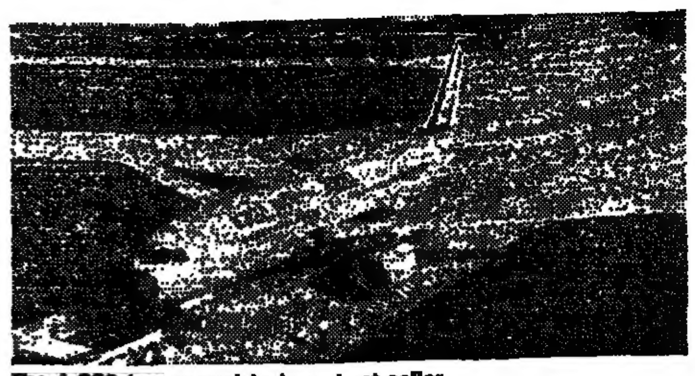
Snecma, the aero engine manufacturer, also state-owned, will receive FFr 960m to develop the CFM-56 motor it produces jointly with General Electric of the US so that it can power the A-330s and A-340s.

Snecma says the grant represents the full amount it had asked for from the Government, but for Aerospatiale it covers only 60 per cent of the cost. The group will at some stage need a sizeable capital to fund its share in the programme.

Against the strong performance by the Airbus, the rest of the French aerospace industry has experienced difficult times.

Total export orders booked in 1986 plunged to FFr 39.9bn, compared with FFr 61.6bn in the exceptional year of 1985. Deliveries remained weak as the effects of the slump in orders in 1983 and 1984 worked through, and in total the outstanding order book dwindled by 10 per cent to FFr 110bn by the end of the year.

French aerospace manufacturers have been hit by the decline in the value of the dollar—in which most of their orders are booked—by the stagnation of their domestic market and by the downturn in some of the Middle Eastern markets where they were strongest.



The A-320 has proved to be a best-seller

The downturn has caused considerable problems for Avions Marcel Dassault-Breguet Aviation, which saw its profits plunge by 36 per cent in 1986.

New orders more than halved, and the year after the death of the company's founder, Mr Marcel Dassault, ended with job cuts for the first time in its history. The new year began badly, too, as Dassault lost a potential FFr 1.6bn order from Switzerland for the Alpha jet trainer to its British rival, the Hawk.

A brighter note was struck for Dassault when the Government finally gave its backing to a new fighter aircraft to be based on its Rafale prototype, although it insisted that Dassault team up with other French companies.

France had been unable to agree with West Germany and the UK on the framework for a new joint European fighter. Now its Avion de Combat Europeen (ACE) will compete with the Eurofighter they are to produce with Italy.

The ACE grouping includes, besides Dassault and its electronics subsidiary Electronique Serge Dassault, Thomson CSF for the electronics and Snecma for the engines. Managed by a Dassault man, Mr Bruno Revellin Falcoz, it will be chaired by General Bernard Capillon, new chairman of Snecma, and will also seek foreign partners.

An olive branch has also been extended to the Eurofighter consortium, raising the possibility of collaboration over some of the electronic equipment which will be common to the two aircraft.

The ACE now planned will be an aircraft weighing 8.6 tonnes empty, powered by two Snecma M-88 engines and offering low visibility to radar, if not the full "stealth" potential originally planned.

The green light from the Government for this fighter project will do nothing for Dassault's immediate problems, however, since the ACE will not be flying until 1996, and will not fill the company's order book before then.

Like Dassault, Aerospatiale saw profits slump last year, even though the company managed to mop up for the first time more than half the French aerospace industry's total export orders. Earnings fell 42 per cent to FFr 303m.

Mr Henri Martre, the company's chairman, said it would not be before 1988 that sales started to recover significantly under the influence of the strong order intake of 1985 and 1986.

The group's strongest performer was its helicopter division, which booked 43 orders for its super Puma helicopter and recorded a 23 per cent rise in sales despite a difficult international market for its products.

France has been more successful in co-operating with its European partners in the helicopter field than it was over the European fighter.

Mr Andre Giraud, France's Defence Minister, announced in March that he had agreed with his West German counterpart Mr Manfred Woerner on the launch of a programme to build a Franco-German anti-tank helicopter.

The helicopter is something of a compromise.

Even this agreement—after three years of stalled talks—has not assured the helicopter's future. Mr Giraud still wants Aerospatiale and West Germany's MBB to come up with substantial cost savings before he gives the final go-ahead. From the German side there have been indications that the reverse may happen, and that the current estimates may be considerably overshot.

George Graham

Telecommunications

Takeover battles in the air

THE FRENCH telecommunications industry has been capturing not only the domestic headlines but also the international headlines for most of the past 12 months. It has been at the centre of an international industrial takeover battle of epic proportions which at one stage turned into a major diplomatic confrontation between the US and West Germany.

It is also in the throes of a *gradual but far-reaching* process of deregulation while Alcatel, *the leading French* telecommunications group, controlled by the recently privatised Compagnie Generale d'Electricite (CGE), has now taken control of a new telecommunications venture which has *become the world's second-*largest telecommunications concern after American Telephone and Telegraph (AT&T).

In many respects, all these events have been interlinked. They also all *reflect the major* transformation taking place in French and other western telecommunications industries. And in many ways they are only the thin end of the wedge to the even more radical changes and *regroupings which are likely to* occur in coming years in this *key industrial sector.*

The industrial battles and manoeuvrings *that have already* taken place in France stem *essentially from the break-up of* the AT&T Bell system monopoly in the US. This landmark decision not only opened up the American telecommunications market to outside competition but also forced AT&T to assume a more aggressive international stance.

For this reason, AT&T early on established a partnership *with Philips in the digital* public switch business and, with Philips, sought to seize control of Compagnie Generale de Constructions Telephoniques (CGCT), the troubled French nationalised telecommunications equipment group.

Formerly owned by ITT, the nationalised French group attracted AT&T because it would give the American giant initial access to about 16 per cent of the French public switch market. For a long time, AT&T seemed set to win *control of* CGCT. To reinforce its chances it proposed a deal in microwave systems with CGE the other big French group which itself was negotiating a landmark deal with ITT to merge its Alcatel telecommunications assets with those of ITT into a new French-controlled international telecommunications group.

But other candidates emerged for CGCT. The West German *Siemens* group was clearly alarmed at AT&T's European moves and put in a rival bid for CGCT. Siemens moreover was also worried by the CGE-ITT link-up which would bring under French control the ITT German subsidiary *SEL*, a major rival of Siemens on its *own domestic market. Arguing* the case of reciprocity, Siemens with the support of the West German Government started putting intense pressure on the French authorities to back its case for CGCT.

At the same time, Ericsson of Sweden and, to a lesser extent, *Northern Telecom of* Canada expressed interest in CGCT. *Ericsson in particular mounted* a careful and well-organised campaign which ultimately paid off. For the Swedish group finally won the battle of control for CGCT when the French Government decided to sell control *of the company for FFr500m to a* consortium including Ericsson, *the French Matra group and the* French Bouygues construction concern.

The decision to choose Ericsson was widely seen as a diplomatic compromise on the part of the Paris government anxious to avoid a major row with either Washington, which had *also been giving strong* backing for its candidate, or Bonn. "It was the judgment of Solomon," remarked an official familiar with the CGCT saga.

But the decision was also welcomed by the French telecommunications authority—the Direction Generale des Telecommunications (DGT)—which was keen to ensure as competi*tive environment as possible* in the domestic public switch market. *This market had* been closed to foreign competition after the French governments of the Seventies decided to establish two domestic switch suppliers for the DGT.

However, after the merger in 1983 of Alcatel's and Thomson's telecommunications assets with Alcatel absorbing its rival's telephone interests, the DGT *was left with only one supplier* and a second source had to be found for CGCT manufactured on licence Thomson switches which were now under the orbit of Alcatel.

Thomson Axe exchange now linked with Alcatel

The French telecommunications authority had shown some concern over the implications of AT&T's microwave deal with CGE and of eventual informal reciprocity arrangements with West Germany. But the Ericsson solution clearly seemed to guarantee a sense of greater competitiveness *in the public* switch market for the DGT.

This was all the more important at a time when the French Government and in particular Mr Gerard Longuet, the liberal French post and telecommunications (PTT) *minister*, had launched a deregulation programme of the domestic telecommunications sector. The *Government* has already indicated that it plans to open up to competition the market for value added network services.

Already groups like IBM and Olivetti have lined up French partners to penetrate this market. Mr Longuet also wants to open to competition the market *for radio telephones and* has proposed allowing private groups to operate pay telephone boxes.

But France is unlikely to go fast and as far in telecommunications deregulation as Britain. Although the Government intends to put before parliament a new law defining the rules of competition in the *telecommunications sector*, it is unlikely to lead quickly to the *setting up of a rival transmis*sion service like Mercury in the UK to the basic DGT services.

In the longer term, however, officials and DGT experts do not rule out the gradual introduction of competition in basic transmission services in France. Groups like the SNCF state railways or the Electricité de France (EDF) electricity utility *could well one day become* operators of a transmission service, a DGT official suggested.

The problem of telecommunications deregulation is particularly delicate in view of *the major contribution which* the DGT makes in different forms to the French budget. For years the DGT has been a cash cow for French Government.

It contributed to various state budgets as much as FFr 20bn *last year*. The finance authorities are thus clearly reluctant *to lose such an abundant* and regular source of funding through deregulation. But the DGT also argues that in an open market environment it must also be equipped with the same tools as its competitors to compete in the market place.

This would entail the DGT *being able to use some of the* funds it hands over to the state to reinforce its own balance sheet and reduce its heavy burden of debts.

The French Government has acknowledged that deregulation will be a fine balancing act. "We don't want to see the DGT *transform itself from a public* monopoly into a private *monopoly. Nor do we* want to see the new competition being able to *cream* the best part of the market," explained a senior member of the Government.

The gradual deregulation of French telecommunications is also expected to be accompanied by further industrial *rationalisations* and regroupings as telecommunications concerns *continue to establish* what they regard is the necessary critical size to compete in an increasingly open and tough international environment.

"The CGCT saga and the CGE-ITT deal are only the first chapter of a major shake-up in the telecommunications industry. They are a taste of future things to come," remarked one of the protagonists in the recently resolved CGCT affair.

Paul Betts

Broadcasting

A real life TV soap opera

THE DEREGULATION and reform of the French broadcasting industry coupled with the privatisation of the country's leading state television network TF-1 have provided France with an unexpectedly juicy real life television soap opera saga of its own.

For the past 12 months, the spotlight has been on the broad*casting industry* which has assumed a centre stage political and economic role in the country. The political passions which have been unleashed by the broadcasting changes first promoted by the former socialist government and subsequently modified and accelerated *by the conservative admi*nistration of Mr Jacques Chirac, the prime minister, reflect the high stakes involved in what has become a battle for supremacy in this key sector of French life.

The changes in French broadcasting have been more sweeping than anywhere else in western Europe. *Once firmly in the* hands of the state, the television monopoly in France has been split. France's so-called PAF (short for "panorama audiovisuel francais" or French broadcasting scene) now includes three private *commercial* television networks, a private pay television *channel, and two* state networks.

Next year, the French direct broadcasting television satellite TDF is due to be placed in orbit which will beam four channels throughout Europe. Cabling, although at a slower rate than expected, is going ahead in several major cities.

To regulate this new broad*casting industry, the Govern*ment has set up a communications commission called Commission Nationale des Communications et Libertes (CNCL) modelled on the Federal Communications Commission (FCC) in the US.

The battle has so far been *most* intense over the new private television networks. The Socialists, expecting to lose power to the right in last year's *legislative elections*, rushed through a broadcasting deregulation programme designed to create new private television networks. The idea was to undermine the right's efforts to regain full control of the country's television broadcasting networks when it returned to government.

The left thus attributed to *groups sympathetic to its cause* the concession to run the new private fifth and sixth channels. The fifth, or "La Cinq" as it is known, was attributed to a partnership including Mr Jerome Seydoux, head of the Chargeurs transport and media group, and to Mr Silvio Berlusconi, the Italian television entrepreneur.

The sixth went to a French consortium which developed *the network into a specific* music channel concentrating on pop music and video-clips. As for the pay television channel Canal Plus it was launched by the Havas state owned media and advertising group now privatised by the right. After a shaky start, Canal Plus has turned out *to be a financial* success.

Under the socialist plan, the new private channels would compete against the existing three French national networks including TF-1, Antenne 2 and the regional FR3 channel. However, as soon as the right was back in power, it decided to modify the programme to *ensure that*, while private, the influential broadcasting groups *remained in its camp rather* than under any socialist influence.

The first thing the right set about doing was to cancel the concessions granted by the left to operate private channels and redistribute them to new groups. Although this involved a bidding process with the newly formed CNCL acting as an independent referee, the competition was widely regarded as rig*ged from the start with the Gov*ernment ensuring that its *favoured* candidates were ultimately picked.

Principal players in the TV network battles (left to right) Robert Maxwell, Silvio Berlusconi and Francis Bouygues

The fifth channel was finally granted to a consortium combining Mr Robert Hersant, the right-wing press baron who had long expressed his ambitions to develop a major presence *in* television broadcasting, and Mr *Berlusconi of Italy.*

The sixth channel went to a group including the Lyonnais des Eaux private water utility and the Compagnie Luxembourgeoise de Telediffusion (CLT). The Lyonnaise des Eaux had also wanted *for a long time* to diversify into broadcasting and its chairman is a former secretary general of Mr Chirac's *neo-Gaullist RPR party. The* CLT for its part had been thwarted by the socialists in its efforts to secure a strong foothold in the French television industry and had lobbied hard with the right.

But the controversy the new concessions for the fifth and *sixth channels* provoked were *only an* hors d'oeuvre of the *major political row caused by* the Government's decision to *privatise TF-1, the country's* oldest and biggest national television network.

It was the first time that a western government had decided to privatise a state television network and immediately major financial, industrial and publishing groups lined up to try to win control of the channel.

For a long time it seemed that *the frontrunner to take over* control of the network was a *consortium led by Hachette, the* country's leading publishing group. But in the end, a group led by Bouygues, the country's leading construction group, and Mr Robert Maxwell, the UK publisher, won the battle for TF-1 paying Fr 3bn for a 50 per cent stake in the network.

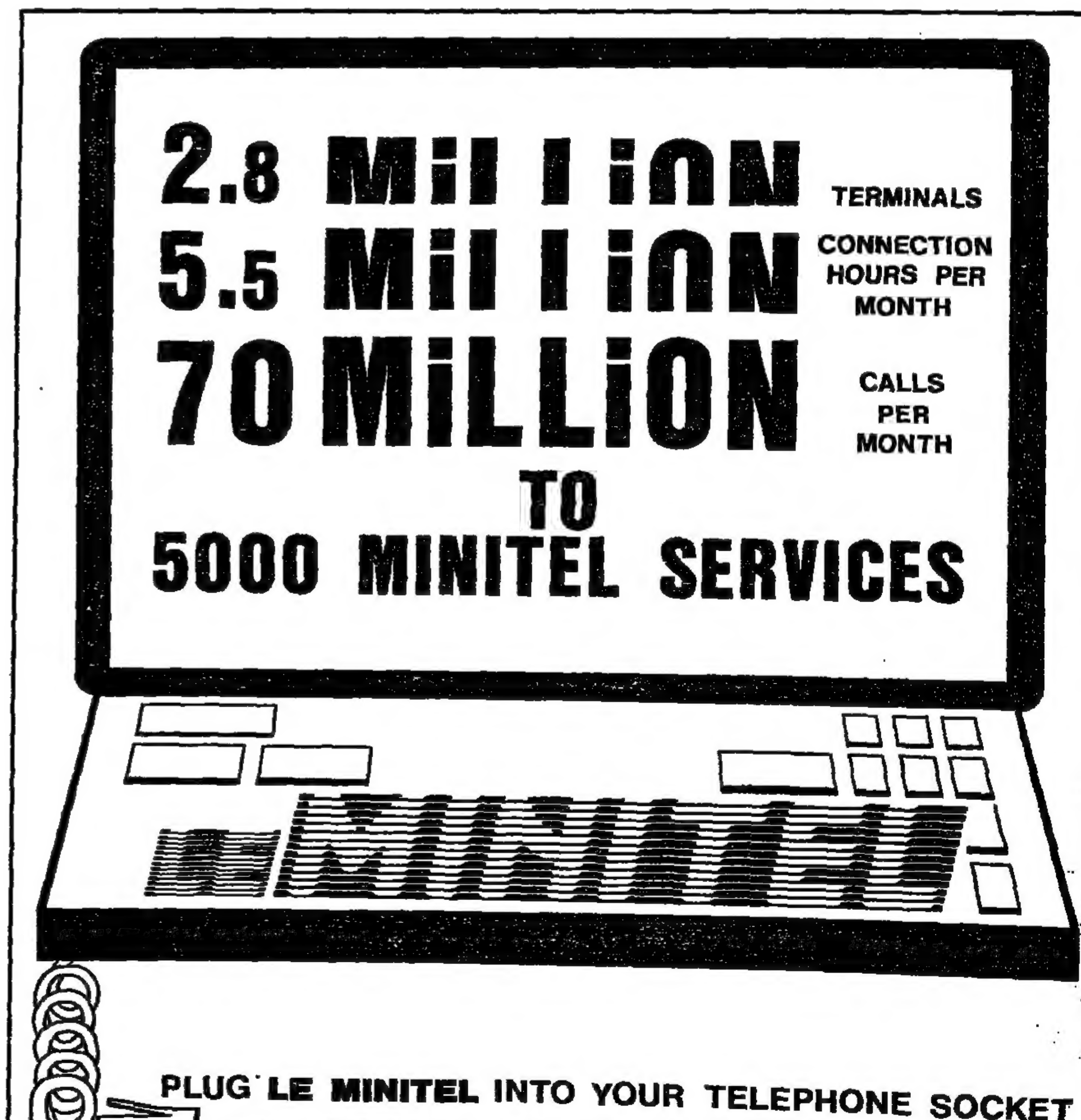
The rest of the channel is expected to be sold by the *French Government early next* month with 40 per cent of the shares offered to small investors and the remaining 10 per cent to employees of the network. These shares will be offered at a lower price than the 50 per cent controlling stake which carried a substantial premium.

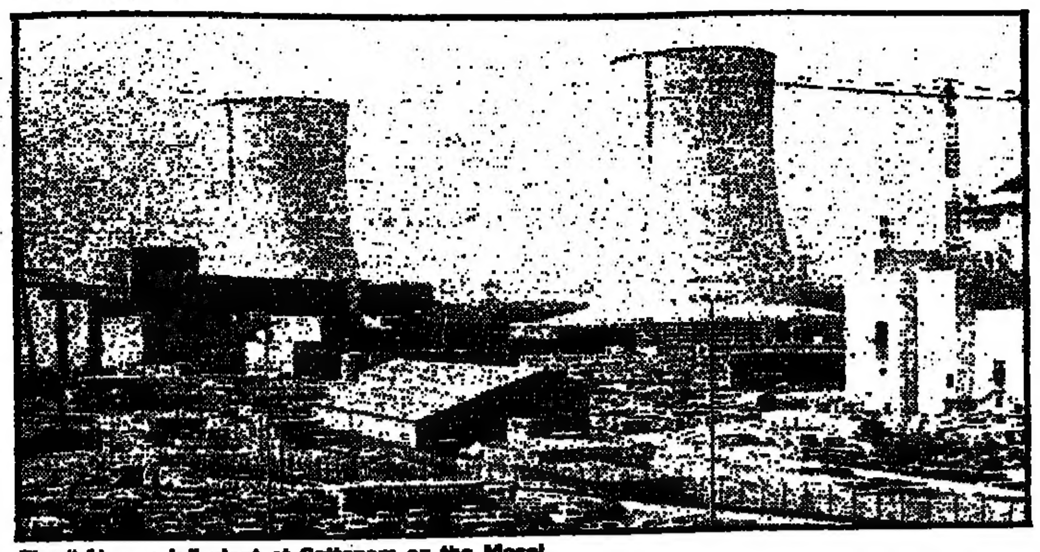
But for Mr Bouygues, who has *built up during the past 30 years* the world's biggest construction group with annual sales of FFr 46bn, the problems appear to have just begun. After the fierce battle with Hachette for control of the TF-1, Mr Bouygues has suddenly found himself in the middle of a new battle against *Mr Hersant's fifth channel.*

During the past few weeks, the *rival channels have been raid*ing each other's networks to lure away France's most popular television stars to arm themselves for the new television ratings war and attract advertisers. Mr Hersant launched the hostilities by attracting to his network two of TF-1's best known variety and chat show artists, while Mr Bouygues counterattacked by hiring some of the biggest names in French television *journalism.*

The musical chairs has only *begun and is likely to continue* to unsettle the industry and command the headlines for months to come.

Paul Betts





The "Atompark" plant at Cattenom on the Mosel.

Energy

Blow to nuclear power

THE DEPARTURE a month ago from the chairmanship of France's electricity authority of Mr Marcel Boiteux marked the end of an era.

In 12 years as managing director of Electricite de France (EDF) and then a further eight years as its chairman, Mr Boiteux had left his spoor all over France's energy policy and turned it into the world's most nuclear dependent country.

With an output of 237 TeraWatt hours, nuclear power stations accounted for 76 per cent of EDF's total electricity output in 1986, and for a quarter of France's total energy consumption.

In the years since 1974 when the programme was getting under way, France remained barely touched by the public opposition to nuclear energy that stalled power station construction in many other countries.

The carefully wrought "nuclear consensus," however, took a body blow with the Chernobyl disaster in the Soviet Union. Public opinion found that the authorities had been economical with the truth and reacted unfavourably to the official line that the Chernobyl cloud had somehow been turned back at the French border.

The line has changed now. EDF and the Government now rush to provide full information on every breakdown at nuclear power stations. Worried citizens can dial up an electronic information service on the country's videotext system, Minitel.

But a steady flow of incidents, mostly minor, has served to keep up the level of public anxiety. Ice blocking the water cooling system at St Laurent des Eaux and leaks of uranium hexafluoride from the Pierrelatte plant were followed by a seepage of sodium from the cooling pipes at the Creys-Malville Superphenix fast breeder reactor.

Mr Pierre DeLaporte, the former managing director of the national gas supplier Gaz de France who has taken over from Mr Boiteux at EDF, faces a heavy task in convincing public opinion again.

But even without this turnaround in sentiment, Mr Delaporte has significant economic problems in his in-tray.

As Mr Boiteux has admitted, the nuclear construction programme was based on forecasts of the demand for electricity which by 1983 were clearly optimistic. Some say France is already overequipped with power stations. Mr Boiteux says it still has insufficient nuclear capacity, but by 1990 it will have between three and five reactors more than the economic optimum.

Marcel Boiteux: his departure from Electricite de France marks the end of an era.

Already, EDF has had to turn overseas to find customers for its electricity. It clocked up net exports of current worth FFr 5.3bn last year, bringing in profits of FFr 3.5bn.

The utility exported a net 25.4 TeraWatt hours of electricity in 1986—twice as much as in 1983—while in 1979 France was still a net importer. Gross exports fell, however, under the influence of the simultaneous fall of the oil price and the dollar exchange rate.

The largest customers are Switzerland, with net imports of 9.5 TWh in 1986, and Italy, with 6.3 TWh. Following the installation of the direct current cross-Channel cable in March 1986, the UK imported a net 4.4 TWh, and this figure should grow in 1987 with a full year of operation.

Last year also saw the connection to the electricity grid of the Creys-Malville fast breeder reactor, which is to export 49 per cent of its output to EDF's Italian and West German partners.

At home, too, EDF has had to refocus its commercial policies and is adjusting its tariffs in the favour of industrial companies. New long-term deals have already been signed with Pechiney, the state-owned aluminium producer, and with Atochem, the chemicals subsidiary of the oil company Elf Aquitaine.

Another problem resulting from the costly nuclear energy programme became evident in the cold spell that brought France to a standstill and overloaded EDF's circuits in January. The concentration of investment on the construction of reactors had left sad deficiencies in its electricity distribution networks, especially in the cabling of Paris.

If the budget for investment in this sector looked respectable, much of the money had recently gone on the cross-Channel cable rather than on domestic networks.

The nuclear programme also left its mark on EDF's financial position, with Fr 220bn of debt at the end of last year.

Yet in 1986, its 40th anniversary year, EDF raised its net profits by 30 per cent to Fr 1.3bn, and embarked on a profit-sharing arrangement for its employees which breaks new ground in the French public sector.

At EDF's twin sister Gaz de France, the future has become less certain in the wake of the collapse of oil prices and its knock-on effects on natural gas.

The company has, however, settled some of the questions over its sources of supply. It finally signed, after many last minute difficulties, a contract for 6bn cubic metres a year of gas from Norway's Troll field, with an option for a further 2bn cubic metres. In addition, it succeeded in renegotiating the price terms on its contract with Algeria's Sonatrach, which accounts for around a quarter of its supplies.

The same cannot be said for Charbonnages de France, the state coal mines, which have continued their steady decline. Trade unions now say the company will cut 25,000 to 27,000 of its 40,000 workforce and close all its mines in the Nord-Pas de Calais region.

For the oil companies, like their international competitors, the past year has been a difficult one. At Elf-Aquitaine, profits fell by 19 per cent to Fr 4.26bn, while Total, using a different accounting method for its stock valuations, recorded a loss of Fr 471m.

The difference between the two rivals' results has prompted much sniping over which is the correct accounting method to use in valuing oil stocks.

Whereas last year Elf was able to make up in part for the fall in crude oil prices by better margins on its refined products, this year the downstream activities have turned sour. Prices for refined products are not firming as fast as the crude oil which is their raw material.

Total, meanwhile, is stepping up its investments in oil and gas production to Fr 7.5bn this year, with a particularly aggressive approach to acquiring new reserves in North America where it has bought out Lear Petroleum Partners for $115m and Texas International's oil assets for Fr 750m.

George Graham

Retailing

An uneven playing field

FOR RETAILERS, epecially the big Paris stores, it seemed as though the seven plagues of Egypt had descended on France.

The wave of terrorist bombs that devastated Paris last summer helped to drive away the American tourists already decimated by more general fears of terrorism and by the weakening of the dollar.

The autumn only got worse, as student riots were followed by public transport strikes and a bitter cold spell that disrupted the pre-Christmas shopping period and the January sales. For a while it seemed as though snowboots and woolly sweaters were the only things that would sell out.

Despite these handicaps, however, French retailers have for the most part turned in healthy financial results and seem to be well set for the current year.

At Carrefour, the leading French supermarket chain, profit climbed 26 per cent to FFr 654m on sales 16.5 per cent higher at FFr 51.5bn. Casino, which runs Carrefour second in size and has spread into fast food and petrol station convenience stores, raised sales by 7 per cent to FFr 32bn and profits by 32 per cent to FFr 352.5m.

Darty, the specialist electrical goods retailer, did even better, with profits up 43 per cent to FFr 260m. It took advantage of a booming electrical market, where white goods sales climbed 11 per cent and brown goods 20 per cent.

But the retailers have had their struggles over the past year and are still engaged in a cautious battle with the Government over a number of issues arising from the liberalisation of price controls and the redrawing of the competition regulations.

The Government of Mr Jacques Chirac has taken a stage further the programme begun by its socialist predecessor of abandoning price controls. By the end of last year the Government had removed almost all these restraints, some dating back to 1945, and had created a new competition council to ensure fair play in the marketplace.

The aim is to let free competition play the policeman over prices, with the council investigaing and punishing abuses of trade practices and price-fixing agreements.

The most immediate effects of lifting controls was a rise in prices in the service sector. Haircuts, parking space, car repairs and cups of coffee at the cafe counter all showed sharp increases.

Officials at the finance ministry wearily expressed their disappointment that France was "learning the wrong lesson from the apprenticeship of price freedom."

In the retail sector, however, most prices had effectively been freed some time before. Fierce competition ensured that the supermarket chains did not pass on price rises to their customers, and refused to accept some increases from their suppliers.

Schweppes soft drinks, for instance, disappeared from the shelves of a number of supermarkets which regarded the manufacturer's increases as unacceptable.

Mr Michel Bon, who joined Carrefour from the Credit Agricole bank, said he was initially staggered by the fierceness of competition in the distribution sector by comparison with banking.

"Competition between retailers is very real and very strong, and it plays on price, not service as in some other countries," he said.

In their efforts to keep prices down, the main supermarket chains had in fact run foul of the Government by creating joint central purchasing organisations.

These groupings—Arci, Difra and Serfaal were the three largest—were set up four years ago by a number of major chains as a means of fighting back against the competition of the Leclerc discount retail centres, which had succeeded in forcing more favourable prices and terms from their suppliers by using their bulk purchasing power.

Although the end result—lower prices for the consumer—was what the Government wanted, the central purchasing organisations were investigated by the authorities for engaging in restrictive trade practices.

The inquiry was begun by Mr Pierre Beregovoy, the socialist finance minister, but the verdict—guilty—landed on the desk of his successor, Mr Edouard Balladur. Faced with an embarrassing decision, Mr Balladur ended with a verbal warning and refrained from imposing a fine on the members of the purchasing units.

Although most price controls disappeared at the end of 1986, many retailers still complain that the Government has not levelled the playing field.

Among the complaints is the continued existence of the Royer law, which closely regulates the opening of new hypermarkets and has led to innumerable supermarkets of 999 square metres, just within the limit at which the law bites. But further disputes have arisen over the areas where the Government has chosen to retain price controls and restrictions.

Mr Edouard Leclerc, who leads Centres Leclerc grouping, has run campaign after campaign aimed at winning the right to sell items such as vitamins and baby milk, which are restricted to chemists' shops. For the time being, at least, the vociferous chemists' lobby appears to have won.

Mr Leclerc, no stranger to battles with the authorities, has also sought to break the rules on book pricing.

Another retailing group, FNAC, is now campaigning against the 33 per cent rate of value added tax which France applies to records and cassette tapes. The store, whose chairman, Mr Michel Baroin, was killed in an airplane crash earlier this year, is for two months selling its records at the 7 per cent VAT rate which is applied to books, making up the difference to the tax authorities itself.

FNAC, originally set up by two former militant Trotskyists as a camera discounter, has become a cult among French students and yuppies with its low-key marketing and vast range of books, records and video and hi-fi equipment. Now owned by Garantie Mutuelle des Fonctionnaires, a civil servants' co-operative insurance group, it is associated with Habitat-Mothercare of the UK.

George Graham

Healthy profits for the big stores despite handicaps for shoppers in the way of strikes and bad weather.

René Monory, Minister of Education: his proposals brought strikes.

Education

Expansion lacks adequate funding

FRENCH SCHOOLS and universities have had a year of upheaval that reflects the difficult decisions now facing the education system.

University students went on strike in November against government plans to make entry to the universities more selective and to raise admission fees. Though the agitation died down after the Government withdrew its university legislation and the minister responsible resigned, it was widespread enough to put paid to any further projects of university reform before the presidential elections.

In the schools, the pugnacious new education minister, Mr Rene Monory set out with bold plans to undermine the grip on children's education of the teacher's unions and to reform the lycees. He suffered a setback with the damage to the Government's authority caused by the teachers' strike.

He was then faced with widespread stoppages by teachers in primary schools in protest against his proposals to give headmasters more control over the running of their institutions. The primary school teachers' action reflects more widespread discontent by the teachers over pay and loss of status.

Behind these problems lies the dilemma overhanging the education system of how to raise student numbers to provide a more educated workforce at a time when funds are short and qualified teachers cannot be provided immediately.

In the secondary schools, the aim now accepted by successive governments is to raise the proportion of students obtaining the school leaving exam—the *baccalaureat*—from 37 per cent of an age group to 80 per cent. In the universities the goal is equally ambitious with an objective of raising the number of students in higher education from about 1.2m (including the grandes ecoles) to 2m.

On the financial side, there is increasing talk of preparing spending plans spread over several years to allow institutions to plan more easily their development—but little sign that funds will be made available to meet the scale of expansion envisaged. The universities budget for next year, for instance, will rise by little more than 4 per cent.

In terms of curriculum and the structure of schooling, the approach beginning to take shape is a combination of more general education backed by a wider range of vocational course for those entering the workforce early, while reinforcing selection for those pursuing longer studies.

Mr Monory, who hopes to launch a debate on secondary education, in the autumn recently outlined his ideas on secondary schooling as follows:

"Perhaps we should hold back the moment of specialisation so as to develop a more general training. You can't allow young people to get smothered by pursuing paths that have no future, particularly when possibilities exist elsewhere. Students must have more possibility of choice. We must also find a balance between the general and technological aspects of secondary education that responds to the needs of society."

In similar vein Mr Laurent Schwartz, the Nobel prize winner who heads the recently formed committee of evaluation for the universities, said recently that selection would be needed to ensure that students who tackled the longer and more specialised subjects at the universities had suitable qualifications.

His idea is that the pressure on the universities could be relieved by creating regional colleges that would provide two-year courses for students not equipped to move to higher degree courses.

Though both government and teachers are aware of the need for urgent action in the universities if the problems are not to become explosive, the student strikes in the winter have made it more difficult to implement solutions. The students are against selection fearing that in a time of high unemployment it could bar the road to a diploma and hence to a job.

But as the report produced by the evaluation committee showed, enormous wastage occurs in the first two years of university training. About 60 per cent of those who enter university drop out in the first two years without a diploma. This reflects the heavy overcrowding in the large universities—in particular the Paris institutions—with staffing ratios far inferior to those found in Britain.

By contrast, French universities put more effort and finance into their research activities where they obtain levels comparable to their major international competitors.

David Housego

Channel fixed link

On the right tracks

A FEW miles outside Calais at Sangatte, a small community on the French shores of the Channel, a huge hole is being dug in the ground. It is already more than 30 metres deep and will reach 60 metres by the end of the year or early next year at the latest. From this hole, the tunnellers will start digging next February the new fixed link under the channel.

After years of uncertainty, the big cranes around the Sangatte construction site which can be seen for miles around the flat countryside are the tangible sign that finally the tunnel under the channel is beginning to take concrete shape. Although the Eurotunnel project has by no means overcome all its hurdles, it seems in the words of the French transport minister Mr Jacques Douffiagues to be now "on the right tracks."

The main hurdles for France have so far come essentially from the British side of the Channel. Unlike Britain, there has never been any serious opposition to a fixed link project in France. Indeed, apart from obvious worries from French channel ports and the ferry services, the French conservative government and the socialist President Francois Mitterrand have been strong backers of what they regard as being the most important civil engineering project in Europe of the century.

For France, the project will not only represent a major technological and industrial challenge offering long-term economic benefits and immediate job creating opportunities, but will also help reinforce the idea of a unified Europe.

"*Tying Britain to the continent* as you call it is important politically, economically and socially for Europe as a whole," remarked a right-wing French parliamentarian and partisan of the fixed-link scheme.

The economic spinoffs of the £4.7bn Anglo-French tunnel project are expected to be considerable for France. For a start, the scheme is expected to provide large-scale job opportunities for one of the most depressed regions of France, the Nord-Pas de Calais which has been badly hit by the collapse of the coal and steel industries.

Unlike the British side of the Channel, this is not an affluent part of France but one which has become economically discouraged by the problems of its heavy industries. "This in part explains why there has been so little opposition locally to the tunnel in France compared to Britain," remarked one of the Eurotunnel consortium executives.

"The British side with well-off counties like Kent and Sussex is a bit like the UK's equivalent of our Riviera or Cote d'Azur. There is a high density of high and middle income people worried by the environmental impact of the project. On our side, it's quite the opposite. It's like the UK's industrial north and the tunnel provides some hopes of economic benefits and new jobs," he added.

For France, too, the tunnel will be a major opportunity to develop further its high speed train (or "Train à grande vitesse" (TGV)) technology. The French Government has long pressed to develop a new high speed train network linking Paris with other northern European countries including Germany, Belgium, and the Netherlands as well as London through the fixed link.

The development of the TGV has been one of the big French industrial success stories of recent years. But the French Government has so far found it more difficult to export the TGV concept outside its borders. The fixed-link and the TGV Nord as the proposed new Northern European fast train link is called has thus been seen as France's big chance to promote its TGV technology abroad.

Indeed, the TGV link remains one of the major hurdles for the complex Channel Tunnel project. Although after much haggling, the two state railways—British Rail and the SNCF for France—have reached an important agreement with the Eurotunnel consortium over the charges they will pay for using the tunnel, France and Britain are still at odds over the precise split of rail revenues between the two countries.

Mr Douffiagues, the French transport minister, explained that France felt it should have a greater share of revenues because it will be making heavier investments for the high speed train link. The French argument is that the rail revenue split should thus reflect equitably the investments made by the rail authorities on either side of the Channel.

Britain at present has taken no decision over the size and nature of rail investments between the new tunnel and London. Indeed, the feeling in France is that the minimum will be done initially on the British side.

"As we see it right now is a high speed train running at top speeds between Paris and Calais and through the tunnel to the British terminal. It will then continue to London at only around 80 miles an hour," said a SNCF official. Although the TGV on the British side will probably become "the slowest fast train in the world," the journey time between Paris and London will none the less be significantly cut to just over three hours. The day a fast link is also established on the British side, the journey will be reduced to under three hours turning the new rail link into a serious rival for the London-Paris air shuttle service.

Despite the current difficulties over the Paris-London high speed train link, Mr David Mitchell, the British minister of state for transport, recently confirmed after a visit to the Calais tunnel site that both the British and French railways will soon be inviting manufacturers to put forward detailed proposals for the high speed train. Moreover, European ministers are due to meet in October to try to advance the TGV Nord project.

The North European fast speed train network and the link with London are regarded by the promoters of the tunnel project as important to boost the overall investment appeal of the Eurotunnel scheme. For this reason they are hoping that more progress can be made on the railway issues before the consortium's major public equity issue next November.

If a few months ago, the French partners appeared worried by the prospects of this issue, the mood has become *increasingly confident* in France. Apart from the railway usage agreement, the setting up of new management structures for the consortium and the appointment of Mr Andre Benard in France and Mr Alastair Morton in Britain as co-chairmen of the consortium has helped restore confidence.

After the problems of the first equity placing last year, the French partners and bankers had become increasingly worried by the outlook for the big public equity issue this year. This will involve about £675m in November with an additional £75m being raised during the course of the summer in the form of a private placement. But they seemed to be reassured now.

Their view that the public equity issue should also include an assortment or "cocktail" of different investment vehicles combining straight equity with interest yielding paper has been accepted by the consortium as a whole.

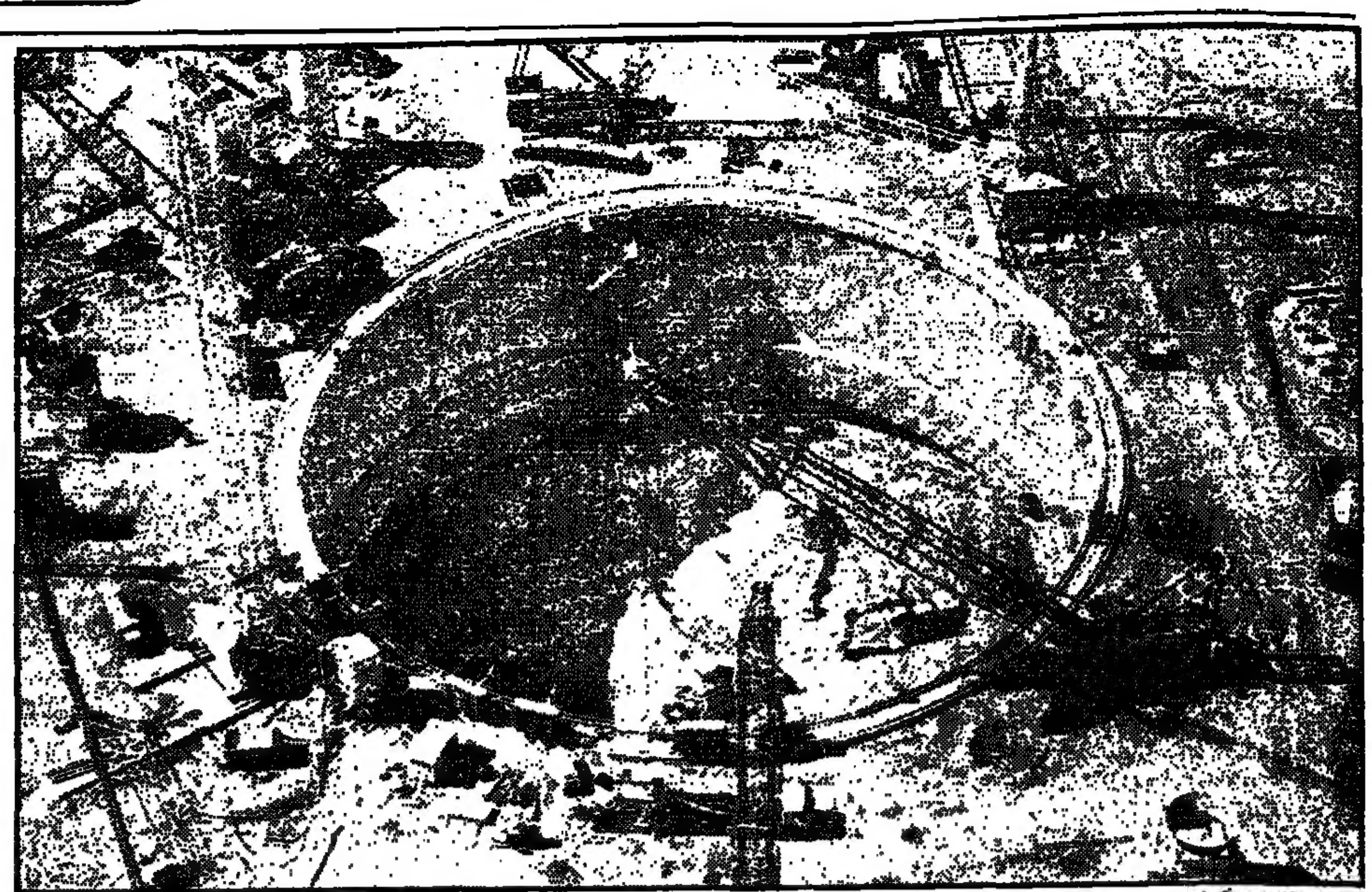
Spirits have also been raised by the approval by the European Investment Bank (EIB) of a long-term loan of £1bn to Eurotunnel on commercial terms in May. This is now likely to help accelerate the negotiations between Eurotunnel and a consortium of more than 40 international banks over additional loans and standby credits totalling about £4bn bringing the overall bank financing package including the EIB facility to £5bn.

The so-called "political risk" of the project is expected to be lifted by the end of the summer. The French Government has indicated that the Channel tunnel bill should have completed its legislative passage in France by the end of June. They have also been reassured by the British parliamentary decision to carry forward the debate on the British Bill after the elections. Under the present timetable, the French transport minister, Mr Douffiagues, now expects the treaty to be ratified by the end of July.

All these recent developments have now helped lift some of the big storm clouds which had been hanging over the project. Even though there are still some sceptics in France—a remark often made on the subject by the French is that the tunnel will never be built because the British deep down do not really want to be physically linked to the continent—the financial community seems relatively confident that the public equity issue in November should go smoothly in France despite the competition from the French Government's privatisation programme and signs that the Paris Bourse is beginning to show some signs of nervousness.

Moreover, there is general public consensus in France over the project.

Paul Betts



The start of the fixed link across the Channel at Sangatte near Calais. When the hole is 60 metres deep by next February tunnellers will start digging under the Channel

Rail links into Europe

Steel

Output slimmed further

THE FRENCH steel industry was this time not caught out by the EC Commission's demand for a further 30m tonne cutback in European steelmaking capacity.

Mr Francois Mer, who since the autumn has headed both Usinor and Sacilor, the two state-owned steel groups, has been saying for some time that more reductions would be necessary to prevent prices being further depressed. He has also indicated that France would be ready for a 2m tonne reduction in hot rolled capacity for flat products out of an estimated European excess capacity of 15m tonnes. This would come by slimming output at the three integrated plants at Dunkirk, Fos, near Marseilles, and in Lorraine.

In long products (bars, rods) the French have equally been aware that further cuts would be needed as 60 per cent of capacity still comes from costly smelted ore in the Lorraine region which cannot compete with scrap fed electric arc furnaces.

Mr Mer's advantage over his predecessors in carrying through these cuts is that he now presides over a single state industry as a result of the decision to bring the two groups under a single holding company. Up to now the French steel sector has been burdened with a duplication of investments and overheads as a result of wasteful competition.

Mr Mer announced that a further 16,000-17,000 jobs would have to go between now and mid-1988 when he presented the new group's accounts for last year in early May. By maintaining a low profile and seeking to find alternative jobs for redundant steelworkers, Mr Mer has so far avoided the strikes that have long dogged the French steel industry.

But a lot more jobs are likely to have to follow before restructuring is completed as he hopes by 1990. The EC Commission has, however, backed proposals that he has for some time put forward for additional financial aid to facilitate rationalisation that results in workforce reductions.

Mr Mer announced a massive FFr 12.5bn net consolidated loss for the two groups for 1986 which includes heavy provisions for restructuring and the writing off of plant and stocks involved in capacity reductions. The good news he brought was a reduction in operating losses from FFr 6.2bn in 1985 to FFr 3.6bn last year.

His goal is to make the French industry competitive with the top tier of Europe's steelmakers over the next three years. But he declines to set any date for a return to profit because of the uncertainties of the steel market.

The burden that the French industry carries beyond that of most of its competitors is a FFr 30.5bn long and medium term debt.

If he can show that the group in its new form can stand on its own, his intention then is to turn to the state to seek a substantial debt write-off.

David Housego